

## 6 SERVICE PROVISION

This Chapter outlines TasWater’s proposed approach and the Economic Regulator’s subsequent decisions with regard to the provision of regulated water and sewerage services to customers and includes discussion of:

- serviced land;
- customer contracts;
- policies; and
- service replacement.

### 6.1 Serviced land

#### 6.1.1 Background

Serviced land is land that TasWater will permit to be connected to its infrastructure.

The identification of serviced land is important as it determines TasWater’s obligation to connect and supply customers. Serviced land also underpins policies and arrangements with respect to service extension and expansion, service charges, service introduction, service replacement and, potentially, developer charges.

#### 6.1.2 Legislative requirements

Section 56U(1)(b) of the Industry Act requires a regulated entity’s proposed price and service plan to include a description of the land (identifiable by individual title or locality) it will permit to be connected to its water or sewerage infrastructure ie a description of serviced land.

In addition to complying with section 56U(1)(b) of the Industry Act, TasWater must also comply with clause 2.2 of the Customer Service Code which requires a regulated entity to connect a property to its existing infrastructure if:

- the property is within 30 metres of that infrastructure; and
- the person requests the regulated entity to connect the property to the infrastructure; and
- the person has paid, or has agreed to pay, all applicable fees for connection; and
- the person has complied with all reasonable terms and conditions of connection imposed by the regulated entity; and

- the connection is required to be made by the provisions of the Customer Service Code, a customer charter made in accordance with the Customer Service Code, or a policy contained in an approved price and service plan of the regulated entity; and
- the physical characteristics or location of the property are not such as to require the application of unusual or unusually costly infrastructure, design, or installation techniques in order for the connection to be made; and
- no plan of subdivision, or other instrument of a type approved by the Economic Regulator, specifies that connection to the regulated entity's infrastructure, or provision of regulated services by the regulated entity, will not occur.

### 6.1.3 Identifying serviced land – factors and considerations

The Economic Regulator's PSP Guideline also outlined the following parameters which may be used by TasWater to determine and justify what land is serviced land:

- geographical and hydrological factors;
- network capacity;
- system capacity (ie treatment plants);
- relevant planning considerations; and
- other justifications based on technical considerations.

The PSP Guideline also stated that TasWater is also required to:

- publish separate descriptions of serviced land for water services and sewerage services;
- continue to make descriptions of serviced land for both water and sewerage services publicly available eg on the entity's website or at a fixed address; and
- ensure that the description of serviced land is updated and published on a regular and ongoing basis ie on at least a monthly basis or when serviced land boundaries change.

### 6.1.4 TasWater's proposed approach to serviced land

In its proposed Price and Service Plan, TasWater noted that it had undertaken a desktop-based approach to the identification of its serviced land area which was guided by a state-wide set of business rules that address issues such as minimum flow, static pressure and proximity to infrastructure mains.

TasWater proposed identifying serviced land on an individual title basis. Further, TasWater has assessed each title for a single tenement connection. In the event that multiple tenements are required TasWater proposed that additional assessments will need to be undertaken.

With respect to water services TasWater proposed using the following parameters to assess whether the property meets minimum water flow and pressure standards:

- Design Flow: 20L/min
- Static Pressure: 250kPa (25m)

Table 6.1 outlines the application of these standards and the outcomes in terms of whether land is identified as serviced land (whether with a full service or a limited service) or as unserviced land for the purposes of water service provision.

**Table 6.1 TasWater’s definition of water services for the purposes of identifying serviced land**

Titles with Full Service	Titles with Limited Service	Titles that are Unserved
<ul style="list-style-type: none"> <li>▪ Are within 30m of TasWater reticulation main, can receive treated water<sup>Note 1</sup> and meet the minimum flow and pressure standards.</li> <li>▪ Are currently connected, receiving treated water<sup>Note 1</sup>, meet the minimum flow and pressure and are not within 30m of a TasWater reticulation main.</li> </ul>	<ul style="list-style-type: none"> <li>▪ Receive untreated water; or</li> <li>▪ Are currently connected and:                             <ul style="list-style-type: none"> <li>○ Do not meet the minimum flow or pressure standards; or</li> <li>○ Directly connected to a trunk main.</li> </ul> </li> </ul>	<ul style="list-style-type: none"> <li>▪ Are not within 30m of a TasWater reticulation main; or</li> <li>▪ Require an easement over private land; or</li> <li>▪ Are within 30m but do not meet minimum flow or pressure standards.</li> </ul>

Note:

1. Treated water for the purposes of serviced land includes disinfected and treated water supplies and excludes raw water supplies.

With respect to wastewater services, in the first instance TasWater proposes assessing whether a gravity connection is possible and in undertaking this assessment considering whether there is a positive fall (ie > 0°) from the property to the reticulation main.

Table 6.2 outlines the outcomes of this assessment process in terms of whether land is identified as serviced land (whether with a full service or with a private pump station service) or as unserviced land for the purpose of sewerage service provision.

**Table 6.2 TasWater’s definition of gravity wastewater services for the purpose of identifying serviced land**

Titles with Full Service	Titles with Private Pump Station Service	Titles that are Unserviced
<ul style="list-style-type: none"> <li>▪ Are within 30m of TasWater reticulation main and are able to connect via a gravity connection; or</li> <li>▪ Are within 30m of a TasWater low pressure main.</li> </ul>	<ul style="list-style-type: none"> <li>▪ Are within 30m of a TasWater reticulation main but cannot connect via a gravity connection.</li> </ul>	<ul style="list-style-type: none"> <li>▪ Are not within 30m of a TasWater reticulation main; or</li> <li>▪ Require an easement over private land.</li> </ul>

With respect to land identified as unserviced land, TasWater proposed that owners contact TasWater to discuss the feasibility of connecting the property to existing infrastructure and notes that, depending on the outcomes of an engineering assessment, fees and charges may apply in these cases.

TasWater also identified a number of non-standard systems which it also proposes will require an engineering assessment to determine the requirements for a connection.

Despite providing a list of factors and considerations relevant to the identification of serviced land, TasWater’s proposed Price and Service Plan did not provide the required description of serviced land with the exception of a sample map of serviced land for the town of Deloraine.

TasWater subsequently submitted a full set of draft serviced land maps in respect of both water and sewerage services on 19 November 2014. TasWater noted that each map contained a disclaimer indicating that the map is draft only and should not be used for planning or decision making purposes. The draft maps are available on the Economic Regulator’s website.

TasWater also noted in its proposed Price and Service Plan that the final set of serviced land maps would be available by the end of February 2015 after the completion of hydraulic engineering assessments. TasWater also undertook to publish, on its website, the final maps no later than 1 July 2015.

#### 6.1.5 Assessment of TasWater’s approach to determining serviced land

TasWater’s proposed methodology for identifying unserviced land was generally compliant with the requirements of the Customer Service Code. Identifying titles that are not within 30 metres of a TasWater reticulation main as ‘unserviced’ complies with clause 2.2 of the Customer Service Code. The Economic Regulator also considers that land needing an easement over private land is justification for identifying a title as unserviced, given the requirement under clause 2.2 that ‘the physical characteristics or location of the property are not such as to require the application of unusual or unusually costly infrastructure, design, or installation techniques in order for the connection to be made’.

In its Draft Report the Economic Regulator noted that, potentially, TasWater’s proposed minimum flow and pressure requirements could satisfy the requirements

of clause 2.2 of the Customer Service Code as an unusual cost. However, TasWater's proposed Price and Service Plan did not provide any justification for the use of these minimum flow and pressure figures. In its Draft Report the Economic Regulator noted that, in the absence of supporting information, it did not intend approving TasWater's proposed minimum water flow and minimum water pressure figures as a valid basis upon which to exclude properties or parts of properties from serviced land.

TasWater's submission on the Draft Report stated that its proposed minimum flow and pressure standards were based on the standards outlined in TasWater's Supplement to the Water Services Association of Australia's *Water Supply Code of Australia*. Having considered this additional information the Economic Regulator considers it appropriate for TasWater to apply its proposed minimum flow and pressure standards in deciding whether a property or part of a property is within serviced land. The Economic Regulator also notes that the TasWater Supplement is currently available on TasWater's website.

***The Economic Regulator approves TasWater applying the minimum water flow and minimum water pressure figures outlined in TasWater's Supplement to the Water Services Association of Australia's Water Supply Code of Australia in determining whether a property or part of a property is within serviced land.***

***The Economic Regulator requires TasWater to publish TasWater's Supplement to the Water Services Association of Australia's Water Supply Code of Australia together with any other additional relevant information that would assist customers and stakeholders in determining whether their property or part of their property is within serviced land.***

In its Draft Report, the Economic Regulator noted that the draft serviced land maps provided by TasWater on 19 November 2014 did not consistently identify serviced land by title, as proposed by TasWater in its proposed Price and Service Plan. On a number of maps, lines showing different levels of service, crossed land title boundaries. However, TasWater's submission on the Draft Report outlined the benefits of not identifying serviced land by title. Specifically, different levels of service within a property's title boundaries are able to be shown as in some cases the minimum flows and pressures may not be available at some parts of the property. The Economic Regulator supports TasWater's proposal to allow serviced land boundaries to exist within titles on the basis that it provides additional information to customers.

***The Economic Regulator approves TasWater allowing serviced land boundaries to exist within property titles.***

In its Draft Report the Economic Regulator also noted that the categories of land in the draft serviced land maps did not match those used in Tables 1 and 2 in Attachment B1 of TasWater's proposed Price and Service Plan (ie the proposed plan uses the terms 'titles with full service', 'titles with limited service' and 'titles that are unserviced'; whereas the maps use 'serviced', 'partial service' and 'not serviced'). The Economic Regulator therefore intended requiring TasWater to

ensure that the categories of land used in the finalised versions of its state-wide service land maps were consistent with those used in the proposed Price and Service Plan. However, these issues have been addressed in the updated serviced land maps provided by TasWater on 3 March 2015 (available on the Economic Regulator's website). The Economic Regulator will however require TasWater to ensure that the categories noted in future serviced land maps continue to be consistent with the categories approved in TasWater's Price and Service Plan for the second regulatory period.

***The Economic Regulator requires TasWater to ensure that the categories of land used in the finalised and future versions of its state-wide service land maps are consistent with those used in TasWater's approved Price and Service Plan.***

Based on submissions received on its Draft Report, the Economic Regulator accepts that the Draft Report did not provide sufficient clarity on the Economic Regulator's capacity to approve changes to serviced land boundaries. In this regard, it is expected that all increases in serviced land would be made in accordance with the Service Extension and Expansion Policy and/or the Service Introduction Policy which are approved by the Economic Regulator as part of its approval of TasWater's Price and Service Plan. These increases do not require the prior approval of the Economic Regulator. Reductions in serviced land will need to be approved by the Economic Regulator provided such proposals are consistent with the service replacement process set out in section 6.3 of the Final Report. TasWater is however required to publish regular updates to the descriptions of serviced land.

As to the timing of the publication of updated descriptions of serviced land, TasWater's Draft Report submission indicated a preference for updates to be published on a quarterly basis. However, the Regulator will require TasWater to publish updates to serviced land as soon as possible after changes are made and, in any case, on at least a monthly basis to provide certainty for customers and so as customers are in a position to make decisions based on up-to-date information.

***With respect to any future changes to the description of TasWater's serviced land, the Economic Regulator requires TasWater to provide an undertaking in its Price and Service Plan to ensure that the description of serviced land is updated, published and made available to the public as soon as possible after changes are made and, in any case, on at least a monthly basis.***

The Economic Regulator notes that TasWater still has significant work to complete in relation to the description of serviced land, with the final versions of the maps not due to be published until after the release of the Economic Regulator's Final Report and Price Determination. However, given the importance of TasWater's serviced land policy as a foundation for the water and sewerage pricing and service system, the Economic Regulator will consider auditing the methodology and the correct application of TasWater's identification of serviced land at some point in the future.

***The Economic Regulator requires TasWater to provide in its Price and Service Plan, the finalised versions of its state-wide serviced land maps, as well as an undertaking to make the final version of those maps available to the public from 1 July 2015.***

#### 6.1.6 Connecting properties outside serviced land

As outlined above, TasWater does not have an obligation to connect a property to its infrastructure if that property is outside serviced land. However, at the same time, there is nothing preventing TasWater from entering into an arrangement with a property owner to connect a property outside serviced land. Depending on the nature of the connection, the terms and conditions of the agreement to connect the property will be based on TasWater's Service extension and expansion policy (referred to in section 6.2.7), Developer charges policy (see section 6.2.5) and/or Service introduction policy (see section 6.2.8).

TasWater stated in its proposed Price and Service Plan that unconnected properties that do not fall within the standard definitions will be identified as unserviced land. Property owners in these areas will need to contact TasWater if they wish to be connected to TasWater's infrastructure to organise an engineering assessment to see if a connection is feasible.

## 6.2 Customer contracts and policies

TasWater was required, under various legislative and regulatory instruments, to include in its proposed Price and Service Plan a series of draft policies and a draft customer contract. The policies required to be provided are as follows:

- Connection policy;
- Service charges policy;
- Service extension and expansion policy;
- Service introduction charges policy;
- Developer charges policy;
- Sub-metering policy;
- Trade waste charges policy; and
- all other policies relating to TasWater's interactions with customers and potential customers (which included, in this instance, TasWater's 'financial hardship policy' and its 'customer complaints, enquiries and disputes management policy').

With the exception of the Developer charges policy', the Economic Regulator assessed these documents as part of its price determination investigation. The Economic Regulator's focus in this regard was one of compliance and accuracy including those drafting errors which render the document non-compliant.

The review of the draft developer charges policy included in TasWater’s proposed Price and Service Plan was deferred pending the result of post Draft Report discussions with TasWater and the Economic Regulator’s consideration of submissions received on the Draft Report in relation to developer charges. Matters pertaining to the agreed developer charges methodology are further discussed under section 6.2.5 of this Final Report.

In addition, there have been supplementary matters considered since publication of the Economic Regulator’s Draft Report, and subsequent consultation period, with respect to TasWater’s draft sub-metering and trade waste charges policies. These issues are further discussed under sections 6.2.4 and 6.2.6 respectively of this Final Report.

In this Final Report, the Economic Regulator has indicated its decision to require TasWater to address all non-compliance related matters by re-drafting documents in accordance with the requirements set out in this Final Report.

#### 6.2.1 Customer contracts

Division 4 of the Industry Act requires a regulated entity to develop a customer contract for regulated services. It is also a requirement that the customer contract be prepared in accordance with the Water and Sewerage Industry Customer Service Code.

A customer contract is defined in the Industry Act as being the *“contract between a regulated entity and a customer for the provision of regulated services to the customer, which includes standard terms and conditions of service”*.

The Economic Regulator is required under the Industry Act to consider any customer contract in making a price determination that is to apply to a regulated entity in respect of a regulated service.

In accordance with section 65 of the Industry Act, and the Economic Regulator’s PSP Guideline, TasWater included, in its proposed Price and Service Plan, the customer contract that it proposes using during the second regulatory period.

The Economic Regulator subsequently reviewed the draft customer contract for compliance with the provisions of the Customer Service Code.

As part of that assessment, the Economic Regulator identified a number of non-compliance issues throughout the contract document.

The review process also identified that a number of terms had been defined in the customer contract but not actually used within the document. Such defined terms are, therefore, redundant and should be removed.

The Economic Regulator offered TasWater comments with respect to the issues it identified and suggested that TasWater remove those terms which had been defined but not subsequently used within the draft customer contract. Furthermore, the Economic Regulator suggested that TasWater carry out thorough quality assurance



of its draft customer contract to ensure consistency in the use of terms and correct referencing to all other source documents.

The Economic Regulator's comments did not, however, extend to matters pertaining to the legality or enforceability of the customer contract as it is TasWater's responsibility to manage these issues. Rather, the feedback was more general in nature, focusing on the customer contract's compliance, overall drafting and structure.

In addition, there were not any issues raised as part the consultation process on the Economic Regulator's Draft Report with respect to the accuracy and compliance of TasWater's draft customer contract which have resulted in any subsequent amendments to the Economic Regulator's position on these matters.

***The Economic Regulator requires TasWater to revise its draft customer contract to ensure full compliance with relevant provisions of the Customer Service Code.***

#### 6.2.2 Connection policy

The point where a customer's pipes connect to a regulated entity's water and sewerage infrastructure is known as the connection point.

It is a requirement under section 56U(1)(a) of the Industry Act, and the Economic Regulator's PSP Guideline, that a regulated water and sewerage entity's proposed Price and Service Plan include a connection policy.

The draft connection policy, as submitted by TasWater, states that it outlines the circumstances in which TasWater will permit an owner of land to connect, relocate or adjust a connection to TasWater's water and/or sewerage infrastructure and describes the land (serviced land), whether by individual title or locality, that TasWater will permit to be connected to its water and/or sewerage infrastructure.

However, as drafted, TasWater's connection policy does not cover:

- where a property is outside TasWater's serviced land and expansion is required to connect the property to TasWater's water and sewerage infrastructure; or
- where a property within TasWater's serviced land is being subdivided; or
- where there is a change in land use within TasWater's serviced land.

The above situations have the potential to increase demand on the capacity of TasWater's water and sewerage infrastructure and are, therefore, addressed by TasWater under its Service extension and expansion policy and its Service introduction charges policy, or by a contract entered into in accordance with section 61 of the Industry Act.

Under TasWater’s draft connection policy, a property will be permitted to connect to water and/or sewerage infrastructure if it meets the connection requirements as outlined in the Customer Service Code and complies with the following criteria:

- the property is within TasWater’s serviced land;
- a title is issued for that property or consent has been provided by the land owner;
- if necessary, a certificate for certifiable work is obtained;
- a TasWater Application for Water and Sewerage Connections form has been completed and submitted; and
- the applicable fees relating to connection, as listed in TasWater’s approved schedule of tariffs have been paid.

The draft connection policy submitted by TasWater was reviewed by the Economic Regulator for compliance against the relevant regulatory and legislative provisions (as noted above).

As an outcome of this compliance review, a number of instances of non-compliance with obligations outlined the Industry Act and the PSP Guideline were identified.

Specifically, the draft connection policy does not specify the connection charges to apply to properties within serviced land, as required under clause 4.8.1 of the PSP Guideline. Nor does the draft policy address matters pertaining to the relocation of a connection or adjustment of a connection and is, therefore, in contravention of section 56U(1)(a) of the Industry Act.

The draft connection policy only deals with initial connection requests and does not detail the criteria for, nor charges associated with, adjustment of a water or sewerage connection or the relocation of a water or sewerage connection. Accordingly, TasWater’s draft connection policy must be amended.

With respect to specifying the connection charges to apply to properties within serviced land, and as an example, TasWater may choose to include a list of all connection charges proposes applying. Alternatively, TasWater may choose to simply provide additional text which directs the reader to where the connection charges information may be obtained (for example, on TasWater’s website).

The Economic Regulator also noted that, regarding TasWater’s obligations under section 56U(1)(b) of the Industry Act, TasWater did not include, in its proposed Price and Service Plan, a description of the land it will permit to be connected to its water infrastructure or sewerage infrastructure (that is, a description of ‘serviced land’). TasWater subsequently provided the required description to the Economic Regulator on 20 November 2014. Matters pertaining to serviced land are further discussed under section 6.1 of this Final Report.

There were not any issues raised as part of the consultation on the Economic Regulator’s Draft Report with respect to the accuracy and compliance of TasWater’s

draft connection policy which have resulted in any subsequent amendments to the Economic Regulator’s position on these matters.

***The Economic Regulator requires TasWater to amend its draft connection policy to ensure its legislative compliance. That is, TasWater must re-draft its draft connection policy so that it:***

- (1) also outlines the circumstances in which TasWater will permit an owner of land to relocate or adjust a connection to TasWater’s water infrastructure or sewerage infrastructure; and***
- (2) specifies the connection charges to apply to properties within serviced land.***

Notwithstanding the absence of charging information within its draft connection policy, and the omission of any discussion of relocation or adjustment of connection arrangements, TasWater put forward, within its proposed Price and Service Plan, the following connection fees for the second regulatory period:

- property service connection - **water** (standard 20mm connection) – for new water service connections or a relocation of an existing water connection;
- property service connection - **water** (standard 25mm connection) – for new water service connections or a relocation of an existing water connection;
- property service connection – **water** (non-standard connection) – for new water service connection, which is not a standard connection;
- property service connection – **sewer** (standard 100mm connection) – for new sewerage service connection to residential or relocation of an existing sewerage connection; and
- property service connection - **sewer** (non-standard connection) - new sewerage connection or relocation of an existing sewerage connection.

TasWater’s proposed fee amounts for connection or relocation of a water service or sewerage service are shown in the following tables.

**Table 6.3 Fees for connection or relocation - water**

Type of charge		2015-16 (\$)	2016-17 (\$)	2017-18 (\$)
Standard connection	20mm	2 032.69	2 083.50	2 135.59
Standard connection	25mm	2 218.57	2 274.03	2 330.88
Non-standard connection		POA	POA	POA

**Table 6.4 Fees for connection or relocation - sewerage**

Type of charge		2015-16 (\$)	2016-17 (\$)	2017-18 (\$)
Standard connection	100mm	1 481.69	1 518.73	1 556.70
Non-standard connection		POA	POA	POA

The Economic Regulator noted that TasWater has proposed the introduction of a fee for connection or relocation of a 25mm water connection. This was not a connection size for which charges were proposed, nor subsequently approved, in the Economic Regulator's 2012 Price Determination.

Furthermore, the previous regulated entities had, as part of the first Price Determination, obtained approval to only apply a fee for connection yet TasWater has proposed to apply charges for connection as well as charges for the relocation of water and sewerage connections for the second regulatory period. As noted in Table 6.3 and Table 6.4, the charges to apply for relocation are to be the same as the fee amounts proposed for connection alone.

Most notably, TasWater's proposed fee for connection or relocation of a 100mm sewerage connection has decreased by approximately one third compared to the fee amount approved for the connection of that type of property service connection for the first regulatory period. The proposed connection and relocation charges to apply to standard 20mm connections for water are noted as being marginally less than the connection fee amounts approved for that connection type for the first regulatory period. Such decreases indicate TasWater's move to introduce more cost reflective charging.

TasWater has also proposed that the fees for connection or relocation of a water service or a sewerage service be indexed at 2.5 per cent per annum (CPI of 2.5 per cent has been adopted by TasWater for the second regulatory period).

TasWater's proposed approach to determining charges for the connection and relocation of non-standard and larger water and sewerage connections on a cost recovery basis is consistent with the current arrangements, approved as part of the Economic Regulator's 2012 Price Determination. Furthermore, and as is presently the case, should customers raise concerns about whether the charges are not cost reflective, then such matters will be dealt with through the complaints handling procedures of TasWater; complaints to the Ombudsman; and/or possible compliance action by the Economic Regulator.

***The Economic Regulator requires TasWater to:***

- (1) adopt, in its final Price and Service Plan, the proposed connection and relocation of connection fees for 2015-16, as outlined in Table 6.3 and Table 6.4 of this Final Report, and that those fees be increased by 2.5 per cent per annum over the second regulatory period to account for inflation. It is noted that the proposed connection fees and relocation of connection fees apply only to 20mm water, 25mm water and 100mm sewerage connections; and***
- (2) determine charges for connection and relocation of connection for non-standard and larger water and sewerage connections on a cost recovery basis.***

**6.2.3 Service charges policy**

In its Draft Report, the Economic Regulator found that TasWater's proposed service charges approach was consistent with the Industry Act and the Pricing Regulations. However, TasWater's proposed Price and Service Plan contained limited supporting arguments justifying its proposed approach to service charges. To address this deficiency and assist TasWater in providing a response to the Draft Report, the Economic Regulator undertook further research and analysis into the respective arguments for and against the imposition of service charges. The results of this research were set out in section 6.2.3 of the Economic Regulator's Draft Report and are reproduced in the following sections.

**6.2.3.1 Background**

A water and/or sewerage service charge is a charge levied where there is an ability to access a service even if there is not yet a physical connection to a regulated entity's water and sewerage infrastructure. The Industry Act allows, but does not require, an entity to impose service charges for water and sewerage services on owners of property within serviced land, based on the entity's description of serviced land. Those liable to pay service charges fall within the definition of customers under the Industry Act and are therefore covered by the entity's customer contract.

Service charges have traditionally applied in most parts of Tasmania, having been imposed by the majority of local government authorities prior to the regional water corporations being established and, subsequently, TasWater. Service charges remain controversial, however, with some property owners forced to pay for a service without using or wishing to use the service.

In its proposed Price and Service Plan for the second regulatory period, TasWater proposed a service charge comprising the full fixed water target tariff and 60 per cent of the fixed sewerage target tariff. TasWater's reason for imposing a sewerage service charge at a reduced rate is due to the fact that no sewage is being discharged by unconnected customers and therefore the variable cost component of the fixed sewerage charge is avoided.

In its Draft Report the Economic Regulator noted that TasWater had advised that it did not intend imposing service charges on customers in limited water quality/supply areas. Following release of the Economic Regulator's Draft Report, TasWater advised the Economic Regulator that it will continue to impose a service charge on property owners in limited service or limited supply areas. The Economic Regulator will require TasWater to note this in its service charges policy and insert a mirroring statement in its final Price and Service Plan.

TasWater has proposed the continued application of service charges on the basis that:

- it is appropriate for all customers who can connect to a service to contribute to the cost of the network; in part because it is an important factor in minimising prices in sparsely populated geographical areas; and
- revenue collected from levying the charge is not insignificant and it allows services to be provided on a more cost effective basis.

In the 2015-16 financial year, water service charges are forecast to apply to 7 656 customers whilst sewerage service charges are forecast to apply to 8 428 customers.

It is the Economic Regulator's responsibility to assess the regulated entity's service charges policy, up against the entity's description of serviced land, the requirements of section 68A, and the Pricing Principles.

Given that the Pricing Principles can, in the context of service charges, be interpreted broadly, the following section reviews how service charges are applied in other Australian jurisdictions and presents the arguments for and/or against the imposition of service charges. This information assists in assessing the appropriateness of the service charge arrangements proposed by TasWater.

6.2.3.2 Arguments for water and sewerage service charges

**Table 6.5 Service Charges by Jurisdiction**

	TAS	VIC	SA	QLD	NSW	WA	ACT	NT
<b>SERVICE CHARGE IMPOSED?</b>	✓	All except some metro/regional service providers	✓	✓	Gosford City, Wyong Councils only	✓	✓	✓
<b>WATER SERVICE CHARGE RATE:</b> <small>Note 1</small>	100%	50%-100%	Residential: 100% Commercial: minimum rate or % of land value	100%	100%	100%	100%	100%
<b>SEWERAGE SERVICE CHARGE RATE:</b> <small>Note 2</small>	60%	50%-100%	100% or % of land value, whichever is higher.	50%-100%	GCC: 100% WC: 75%	75% or % of Gross Rental Value	100%	100%

Notes:

1. % of 20mm Fixed Water Rate
2. % of Fixed Sewerage Rate

As set out in Table 6.5, water and sewerage service charges apply in each Australian state and territory. There are a number of arguments commonly used by service providers and/or regulators to justify the imposition of service charges.

One such argument is that service charges reflect the costs of the regulated entity complying with regulatory requirements. In Queensland, water and sewerage service providers are required under section 164 of the *Water Supply Act 2008 (Qld)* (Queensland Water Supply Act) to ensure that all properties within serviced land have the ability to connect to the service provider’s infrastructure. From a service provider’s perspective, the most efficient way to meet this requirement is to build the capacity in the network to accommodate all potential customers in a service area, even though a portion of that service area may initially contain vacant/unconnected lots. This is because it is costly to replace trunk mains at a later date on a case-by-case basis. Section 165 of the Queensland Water Supply Act also allows the service provider to recover from a customer the reasonable cost of complying with section 164. With this in mind, the Queensland Competition Authority (QCA) position is that service charges represent the recovery of the reasonable costs of complying with a regulatory requirement.<sup>1</sup>

A second and related argument is that, if service charges were not to apply, there would be a problem of cross-subsidisation whereby connected customers would pay for the additional capacity reserved for unconnected property owners. At least a

<sup>1</sup> Queensland Competition Authority, *SEQ Long Term Regulatory Framework - Pricing Principles*, March 2014, p. 48.

portion of these unconnected property owners could be engaging in “land banking”<sup>2</sup> and, therefore, having the costs of their investments subsidised by connected customers. In this context, service charges not only prevent cross-subsidisation, but in deterring land banking also encourage property development in areas serviced by existing water and sewerage networks.

These arguments are particularly relevant to areas experiencing high levels of residential growth, such as the ACT. In such instances, those liable to pay a service charge are typically owners of vacant lots created as part of new developments. The service charge encourages property development and ensures that each property owner is contributing to the collective water and sewerage infrastructure costs associated with the development. In most scenarios, a property will be constructed within a year of vacant land being purchased. It is typical therefore that the costs of paying the service charge over that timeframe will be factored into the total costs of buying and constructing a property. When considered in this context, the overall cost of the service charge is relatively minor and tacitly accepted by the property owner. Information provided to the Economic Regulator by the ACT’s Independent Competition and Regulatory Commission suggests that, for these reasons, water and sewerage service charges are relatively uncontroversial in the ACT.

A final argument in favour of service charges is that they are offset by the assumed increase in a property’s value that occurs from the property’s potential to access water and sewerage infrastructure. This argument is made explicit in the majority of Australian jurisdictions by service providers/regulators. There are, however, several caveats to this argument.

While it may be true that access to infrastructure will increase a property’s capital value, this will only benefit the owner of a property at the time the service is first made available to that property. This is because any increase in a property’s market value as a result of access to infrastructure will be paid for by the next owner(s) at the time of purchase. The increase to property value at the time of purchase will, therefore, offset any increase to the property value at the time of sale for that person(s).

An alternative argument is that, were service charges to be removed from currently serviced areas, this would be unequitable on two accounts. Firstly, the value of unconnected/vacant properties in current serviced land may rise relative to those in non-serviced land. For example, vacant land with access to water and sewerage infrastructure, without any offsetting service charge costs, would presumably be a more valuable investment than the same vacant land without any access to such infrastructure. Property owners outside of serviced land may therefore find it unfair that those within serviced land have value added to their property without any offsetting costs in the form of service charges. Secondly, were service charges to be removed, the service provider would have to recover this loss of revenue from existing customers. Potentially then, removing service charges would have the effect

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<sup>2</sup> Land banking is the act of holding land or buying pre-developed parcels of land for future sale or development, typically for the purpose of making capital gains on the value of the land.



of connected customers subsidising the increase in some unconnected customer's property value.

#### 6.2.3.3 *Arguments against water and sewerage service charges*

The review of service charges across Australia has identified the following three categories of arguments against water and sewerage service charges:

- those relating to specific geographic and historic circumstances which make service charges not feasible;
- those relating to the broader negative economic impacts of service charges; and
- finally, those that draw on equity principles.

Geographic/historical factors are particularly relevant in Victoria and NSW, both of which are geographically diverse and contain a number of service providers. As a result, the imposition of service charges is not uniformly practiced across the States. In Melbourne and Sydney, services charges appear not to apply as a standalone tariff. Rather, the vast majority of properties in the cities have long established water meters and are connected to infrastructure by default. As all metered properties incur the standard fixed charge, there is little rationale for imposing a service charge for vacant or unconnected/unmetered properties.

In regional Victoria, services charges are either imposed at 50 per cent of the standard fixed rates, or in a number of cases, not at all. In New South Wales, Hunter Water Corporation does not impose service charges, whereas Gosford City Council and Wyong Shire Council do.

Information from ESC Victoria indicates that there are a number of reasons why certain water and sewerage service providers in Victoria may choose not to impose service charges. In areas with a high proportion of unconnected properties that do not require water and/or sewerage services all year round (eg holiday homes), it would be neither economical nor equitable to impose service charges. Owners of these properties will often prefer to use a non-reticulated water and sewerage system when required, rather than pay an annual charge. There would also be problems with customer traceability and associated billing issues were service charges to be imposed in these areas.

Another reason why some regional Victorian service providers do not impose service charges appears to be due to their historical absence, along with low growth levels in population and property development. For service providers in such areas, the costs – political, economic and administrative – of introducing a service charge may outweigh the benefits. For example, Grampians-Wimmera-Mallee Water imposes a service charge only in designated growth towns, where a 'development rate' of \$174.14, roughly 50 per cent of the standard fixed water tariff, applies.

In terms of broader economic impacts of imposing service charges, the Essential Services Commission of South Australia (ESCOSA) has discussed the issue in detail, in its *Draft Inquiry into Reform Options for Drinking Water and Sewerage Pricing* (Draft Inquiry Report).

ESCOSA raises concerns in its Draft Inquiry Report that the practice of imposing service charges may encourage over-investment on behalf of service providers – in this case South Australian Water Corporation (SA Water). It states that:

This practice can result in over-investment by SA Water, as it allows SA Water to levy a charge simply as a consequence of laying a pipeline next to a property, regardless of whether or not any service is required.<sup>3</sup>

If service charges were to be removed, ESCOSA also argued that the “inappropriate distributions of costs and uneconomic investments, which can lead to perverse economic outcomes, are unlikely to occur”.<sup>4</sup>

Should service charges be removed, ESCOSA estimates that the initial loss in revenue (\$10.8m per annum) would lead to annual water and sewerage bill increases of approximately \$8 per customer respectively.<sup>5</sup> However, the Draft Inquiry Report went as far as suggesting that, in the long run, the impacts on customers’ bills may be offset by more efficient investments on behalf of SA Water which in turn will translate into cost savings.

ESCOSA’s Draft Inquiry Report also suggested that imposing service charges changes the economics of free choice, creating incentives for those liable to pay service charges to connect to SA Water’s infrastructure rather than remain with non-reticulated systems. Not only does this potentially penalise these people, but it discourages potential water saving measures that may occur through the usage of non-reticulated water systems. This is particularly the case in areas with limited overall water supplies.

In its Final Inquiry Report, ESCOSA has recommended that customer’s who choose not to connect to SA Water’s network should not be required to pay a service charge on the basis that:

- people should be able to choose whether or not they receive a service. Whilst customers should be aware of, and should pay for, the private and social costs that arise from their consumption, payment for water and sewerage services should only be required from a customer when they receive that service; and
- imposing a service charge acts as a very substantial barrier to entry as any alternative service provider will not only need to be cheaper, but cheaper by at

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<sup>3</sup> Inquiry into Reform Options for SA Water’s Drinking Water and Sewerage Prices, Draft Inquiry Report, ESCOSA, 16 July 2014, p. 113.

<sup>4</sup> Inquiry into Reform Options for SA Water’s Drinking Water and Sewerage Prices, Draft Inquiry Report, ESCOSA, 16 July 2014, p. 116.

<sup>5</sup> Inquiry into Reform Options for SA Water’s Drinking Water and Sewerage Prices, Draft Inquiry Report, ESCOSA, 16 July 2014, p. 116.

least the amount of the fixed charges before they stood any chance of being considered as an alternative supplier<sup>6</sup>.

The Economic Regulator acknowledges the validity of ESCOSA's first reason for recommending the removal of service charges. However, in the Tasmanian context, the likelihood of a competitor entering the Tasmanian water and sewerage market is considered to be very low.

#### 6.2.3.4 *Service charges pricing discussion*

The above discussion provides a basis on which to assess TasWater proposed service charges tariff structure (tariff structure). This section narrows the scope of this assessment by placing the above discussion into the relevant legislative and regulatory context. As TasWater is, by legislation, not prevented from imposing service charges, the discussion predominately concerns the arguments that may affect the charges that are ultimately to be set by the Economic Regulator.

Firstly, TasWater's proposed service charge target tariff structure is consistent with subsection (1)(a) of section 68 of the Industry Act: *a regulated entity is to be provided with a reasonable opportunity to recover the efficient costs of complying with a regulatory requirement*. Such a regulatory requirement can be found under the *Customer Service Regulations*, Regulation 6(1), which stipulates that a regulated entity is to ensure that any property within 30 metres of its infrastructure is able to be connected, providing a number of conditions are met. To comply with this regulation, a service provider needs to ensure there is enough capacity in the network such that all property owners in a service area can connect upon request. Under the proposed Price and Service Plan, all property owners within serviced land pay for these fixed costs, either via a service charge or fixed water and/or sewerage charge. This is essentially the same argument that is used by the QCA to support service charges in Queensland.

Arguments concerning land banking and cross-subsidisation are also relevant to TasWater's proposed service charges tariff structure. The proposed tariff structure arguably promotes property development and therefore has a positive economic influence by providing disincentives for land banking in areas serviced by existing water and sewerage networks. Any reduction in current service charges would also advantage those engaging in land banking in service areas relative to those in non-service areas. Similarly, property owners who remain unconnected after a service is introduced to their area will potentially have their property value increased at a 'reduced cost'. Consequently, when and where TasWater decide to introduce their services would potentially be more controversial than would be the case with higher costs for unconnected customers. In terms of cross-subsidisation, any reduction in service charges would be paid for by an increase in the bills of connected customers. In summary, some members of the community may find the

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<sup>6</sup> Inquiry into Reform Options for SA Water's Drinking Water and Sewerage Prices, Final Inquiry Report, ESCOSA, 16 December 2014, p. 65.

arrangements that naturally take place as a result of reducing service charges to be unequitable.

In theory then, there are several arguments that support approving TasWater's proposed service charges. However, it is important to consider what any reduction of the proposed charges would mean in terms of customer bill impact. Using TasWater's forward estimates of revenue to be raised from service charges in the 2015-16 financial year, it is possible to infer how a reduction in the service charge would impact upon the bills of connected customers.

TasWater forecasts that \$2.2 million will be raised from water service charges and \$2.8 million will be raised from sewerage service charges in 2015-16. Based on the estimated 255 646 customers paying the fixed charge for water services in 2015-16, a water service charge reduction of 50 per cent would equate to a \$4 bill increase for these customers. Based on the estimated 238 967 customers paying the fixed sewerage charge in 2015-16, a 50 per cent reduction of the sewerage service charge would lead to an increase of nearly \$6 per bill for these customers. Together, reducing the water and sewerage service charge target tariffs by 50 per cent would mean an approximate \$10 increase in the average customer bill.

While the potential significance of this bill impact is likely to vary according to the customer, this is likely to be mitigated somewhat by the price constraints that will apply for the second regulatory period. A reduction in the service charge would be but one factor in price movements for water and sewerage services.

It is also important to consider whether the arguments for the imposition of service charges are practically sound in the Tasmanian context. Unlike some other Australian jurisdictions, it is questionable whether Tasmania is experiencing the types of residential growth likely to attract large scale land banking. On the contrary, service charges apply in many cases to long-established communities which contain holiday homes and property owners who might otherwise opt for non-reticulated water and/or sewerage systems (thereby forgoing the costs of connecting to and utilising TasWater's infrastructure). In such cases, the freedom of choice over service provision is constrained by service charges. This is due to the economic inefficiency implied in using non-reticulated systems while also paying the standard fixed rate for access to reticulated infrastructure. It should also be noted that any growth in property value as a result of access to water and/or sewerage infrastructure is redundant for those who do not wish to sell their properties in the future. In fact, in cases where service charges apply to those who neither require nor benefit from access to water and/or sewerage services, it is arguable that connected customers are the ones being subsidised via service charges.

This leads to the broader economic arguments against imposing service charges, which are also relevant to the Economic Regulator's assessment of TasWater's proposed service charge structure.

Section 68(1)(c) of the Industry Act states that *"the price is to provide effective incentives to promote economic efficiency, reduce costs or otherwise improve productivity with respect to a regulated service."* With the points raised in ESCOSA's Draft Inquiry in mind, it is questionable whether the proposed service charges

promote economic efficiency on behalf of the entity. Rather than promote economic efficiency, service charges may instead encourage the provision of services to areas where demand for these services is relatively low.

For new network investment, it should be noted that these concerns may already be mitigated by TasWater's draft service introduction charges policy. In its draft service introduction charges policy, TasWater states that it will require 80 per cent community support for the introduction of water and/or sewerage services before undertaking a detailed plan for the introduction of a service. It is therefore arguable that TasWater has already adopted policies designed to avoid overinvestment.

#### *6.2.3.5 Service charges policy compliance discussion*

The Economic Regulator assessed TasWater's draft service charges policy for consistency and compliance with the obligations and principles as outlined in section 68A of the Industry Act, and the Economic Regulator's PSP Guideline. One instance of non-compliance was identified from this review.

TasWater stated in its proposed Price and Service Plan that customers to whom a service charge applies will pay the same amount they would expect to pay upon connection. In other words, those customers without a connection in limited supply areas will pay a reduced service charge. However, the PSP Guideline (clause 4.8.2) explicitly directs TasWater to specifically address the application of services charges to different customer classes in its service charges policy. TasWater's draft policy did not include any discussion in this regard.

The Economic Regulator's review of TasWater's proposed Price and Service Plan also identified some inconsistencies in the use of the term 'services charges', which may confuse readers. TasWater uses the term 'fixed service charges' to denote the fixed charges for water and sewerage charges for connected customers. The term 'service charge' should be used exclusively to denote the charge levied on unconnected customers within serviced land.

#### *6.2.3.6 Summary*

In accordance with the Industry Act, a regulated entity may impose service charges for water services and sewerage services in accordance with the description of serviced land provided as part of its proposed Price and Service Plan. As noted in the above discussion, there are arguments to support TasWater's proposal to continue to impose service charges being consistent with the Industry Act and Pricing Regulations. However, the Economic Regulator notes that the arguments presented in the above discussion that support a reduced level of service charges are equally consistent with the Industry Act and Pricing Regulations.

Submissions received on the Economic Regulator's Draft Report in relation to this issue did not present any new arguments either for or against TasWater imposing service charges.

The Economic Regulator has therefore decided that, as TasWater is legally able to impose service charges and a decision to remove service charges would result in

the burden of those charges being transferred to other customers, TasWater should be permitted to continue to impose these charges.

Additionally, consistent with the Economic Regulator’s decision to require TasWater to adopt its proposed 2017-18 fixed water target tariffs for the duration of the second regulatory period (see section 5.8.5 of this Final Report), TasWater is also required to apply the following service charge target tariffs during the second regulatory period:

**Table 6.6 Economic Regulator’s service charge target tariff – water and sewerage**

	2015-16 (\$)	2016-17 (\$)	2017-18 (\$)
Water service charge	329.48	329.48	329.48
Sewerage service charge	337.60	357.88	379.32

The Economic Regulator found that TasWater’s draft service charges policy was largely compliant apart from not discussing the application of service charges to different customer classes.

***Based on its assessment of TasWater’s proposed Price and Service Plan, the Economic Regulator accepts TasWater’s proposed service charges structure.***

***The Economic Regulator requires TasWater to apply the service charge target tariffs set out in Table 6.6 of this Report.***

***Based on its assessment of TasWater’s discussion on services charges in section 7.2 of its proposed Price and Service Plan, the Economic Regulator requires TasWater to address the inconsistent use of the term “service charge(s)”. Where the fixed charge for water and sewerage is intended to be used, it should be referred to as a “fixed charge” in accordance with clause 4.5.1 of the PSP Guideline.***

***In respect to different customer classes, the Economic Regulator requires TasWater to:***

- (1) note its intention to continue to charge limited service customers a service charge in its service charge policy; and***
- (2) make a mirroring statement in the services charges section of its final Price and Service Plan.***

#### 6.2.4 Sub-metering policy

TasWater is required to charge a variable charge for a water service with the variable charge payable for each unit of water delivered to the property to which the variable charge relates. To enable it to measure the volume of water delivered to each property TasWater installs a meter at each connection point.

With respect to strata title schemes, due to the existence of interposing pipes on all or on part of common property, individual lots are generally not connected directly to

TasWater’s infrastructure. However, section 3A of the Industry Act states that strata title lot owners are TasWater’s customers on the basis that individual lots would be connected to TasWater’s infrastructure if not for the interposing pipes.

Generally, TasWater’s infrastructure connects to a strata tile scheme via a single connection point with internal pipe work within the strata scheme connecting individual lots to the connection point. TasWater will install a meter (referred to as the master meter) at the connection point to the strata scheme but the master meter does not provide information on the volume of water delivered to individual lots. To measure the volume of water delivered to individual lot requires each lot to be metered. The installation of meters in addition to a master meter is referred to as sub-metering.

The legislation does not address the issue of whether strata title properties must be sub-metered. TasWater must therefore specify under what circumstances a strata title property must be, or, may be sub-metered and explain the costs involved.

The PSP Guideline required TasWater to include in its proposed Price and Service Plan:

- a discussion of its current approach to sub-metering;
- an explanation and justification of any differences between its current policy and the policy it proposed for the second regulatory period; and
- a sub-metering policy.

The sub-metering policy was required to address:

- the circumstances in which TasWater will require sub-metering of strata titled properties;
- the circumstances in which sub-metering of strata titled properties is optional;
- where sub-metering is optional, the process for strata title owners to follow in deciding whether or not to proceed with sub-metering; and
- TasWater’s position with regards to sub-metering multi-unit properties; and
- billing arrangements for multi-unit and strata titled properties.

TasWater’s proposed Price and Service Plan did not contain a sub-metering policy nor did it provide a discussion of the entity’s current approach to sub-metering or explain and justify any differences between TasWater’s current policy and proposed policy for the second regulatory period.

After the Economic Regulator brought this matter to TasWater’s attention TasWater submitted additional information, including a “metering policy” in late October 2014. Although the information received did not specify TasWater’s current sub-metering arrangements it did include TasWater’s proposed approach to sub-metering for the second regulatory period.

However, as the PSP Guideline only requires TasWater to provide a sub-metering policy the Economic Regulator did not intend to review and/or approve any component of the policy which dealt with metering more generally. Therefore the Economic Regulator assessed the draft policy for compliance and appropriateness with respect to its application from the perspective of sub-metering only.

TasWater's proposed metering policy included an intention to allow developers of new strata schemes the option of installing either a single master meter, or a master meter with sub-meters. Where a developer were to chose not to install sub-meters TasWater proposed advising the developer to install pipe work which would allow sub-meters to be installed at a later date. In its Draft Report the Economic Regulator proposed not approving this condition unless TasWater could provide sufficient justification for this proposal in its final Price and Service Plan and identify the legislative authority under which TasWater believes it is able to introduce such arrangements.

Therefore the Economic Regulator proposed in its Draft Report that TasWater must re-draft the policy to: be a standalone sub-metering policy; improve its readability, functionality and accuracy; and address the requirements of the PSP Guideline.

In its Draft Report, the Economic Regulator stated that it considered that TasWater's proposed sub-metering policy was confusing in parts and concluded that it would be difficult for a customer to read and understand the application of the policy to their individual circumstances. The Economic Regulator also noted that the proposed policy did not address the process for existing strata title owners to follow in deciding whether or not to proceed with sub-metering, as is required in the PSP Guideline, or, once a decision to sub-meter was made, what the process was for installing sub-meters. In this respect, the Economic Regulator considered that the term 'process' denoted undertaking a series of actions or steps to achieve a particular end.

#### *6.2.4.1 Issues raised in submissions*

In contrast to the contents of its metering policy, TasWater's submission on the Economic Regulator's Draft Report stated that it would require all new strata scheme developments to have a master meter and sub-meters. TasWater subsequently provided a copy of its proposed sub-metering policy to the Economic Regulator which included this requirement. The Economic Regulator noted therefore that TasWater's proposed sub-metering policy no longer refers to the original proposal that developers would have the option of not installing sub-meters in new strata title developments and that, where it was decided not to install sub-meters, the developer would be required to provide for the future installation of sub-meters.

Based on the other submissions received on the Economic Regulator's Draft Report and the Economic Regulator's own experience in dealing with queries and complaints about sub-metering, it was apparent that customers are confused about TasWater's approach to sub-metering. It was also apparent that the sub-metering policy in force during the first regulatory period did not address all possible metering arrangements nor does it specify when and how fire services charges are to be applied to strata schemes.



The Economic Regulator considers that TasWater's proposed sub-metering policy is confusing in parts and concluded that it would still be difficult for a customer to read and understand the application of the policy to their individual circumstances. In addition, the Economic Regulator noted that the proposed policy does not address the process for strata title owners to follow in deciding whether or not to proceed with sub-metering, as required in the PSP Guideline.

The Economic Regulator therefore requires TasWater's final sub-metering policy to:

- specify that a separate meter for common property is optional in that, if a separate meter for common property is not installed, then the difference between the volume measured at the master meter and the sum of the individual sub-meters is deemed to be the water usage for the common property;
- specify that if a sub-meter is installed to measure usage for common property there may be additional costs for lot owners;
- explain how the State Government concessions are applied to strata title lot owners;
- note that, as installing sub-meters and undertaking meter reading in multi-unit properties are unregulated services, owners of such properties have the option of using a third party to undertake these services;
- explain clearly the differences between the requirements for new multi-unit properties and the requirements for existing multi-unit properties;
- explain how fire services charges will be applied in strata title schemes;
- describe all possible metering configurations and the associated applicable billing arrangements including where a strata scheme has both master metering and direct connections that are separately metered.
- separately outline the billing arrangements when:
  - (a) the volume measured by the master meter is greater than the sum of the volumes measured by the sub-meters; and
  - (b) the volume measured by the master meter is less than the sum of the volumes measured by the sub-meters.
- specify that the minimum size of a sub-meter is 20mm and explain that each lot owner will be liable for:
  - (a) the target tariff fixed charges based on the relevant sub-meter size;
  - (b) variable charges based on their own usage;
  - (c) a proportion of any applicable common property water consumption;
  - (d) a proportion of any usage measured by the master meter which is greater than the sum of the usage measured by the sub-meters; and

- (e) a proportion, if applicable, of the fixed charge relating to a meter for common property.
- explain why, and under what circumstances, TasWater may decide to install a master meter where lots in a strata scheme already have individual meters and clearly state the implications for lot owners if a master meter is installed ie lot owners will be liable for any usage measured by the master meter which is greater than the sum of the usage measured by the sub-meters;
  - specify that TasWater can impose variable charges on a body corporate in accordance with Regulations 17(2) and 18(1) of the Pricing Regulations;

The Economic Regulator will also require TasWater to provide an undertaking in its final Price and Service Plan that it will develop and make available supporting documentation that will set out a high level description of the process and procedure to be followed by strata title owners in deciding whether or not to install sub-meters. This documentation is to include, but not be limited to:

- (a) the need to arrange for a vote of lot owners on whether to install sub-meters and to obtain all lot owners' agreement before proceeding;
- (b) explaining any differences in process or treatment compared to standard arrangements; and
- (c) describe what the bill will look like. For example, will charges in respect of common property be a separate line item or will the bill be based on a standard bill with a specific list of differences.

The Economic Regulator will further require TasWater to provide an undertaking in its final Price and Service Plan that all relevant sub-metering documents (including application forms, diagrams, guidelines etc) will be made available on TasWater's website.

***The Economic Regulator requires TasWater to revise its proposed metering policy to:***

- (1) be a standalone sub-metering policy;***
- (2) address the comments and questions raised by the Economic Regulator (as forwarded to TasWater simultaneous to the release of the Economic Regulator's Draft Report for public consultation) to ensure the policy's compliance, accuracy and readability; and***
- (3) address the sub-metering issues listed in section 6.2.4.1 of this Final Report.***

***The Economic Regulator requires TasWater to include, in its final Price and Service Plan, discussion of its current approach to sub-metering, an explanation and justification of any differences between TasWater's current policy and the policy it proposes for the second regulatory period and any other requirements specified in the PSP Guideline.***

***The Economic Regulator also requires TasWater to provide, in its final Price and Service Plan, an undertaking that it will develop, and make available on its website, supporting documentation that will set out a high level description of the process and procedure to be followed by strata title owners in deciding whether or not to install sub-meters.***

***The Economic Regulator further requires TasWater to include, in its final Price and Service Plan, an undertaking that it will publish, and provide links to, all relevant sub-metering documents (including application forms, diagrams, guidelines etc) on its website.***

#### 6.2.5 Developer charges policy

In examining this issue the Economic Regulator noted in its Draft Report that it is not responsible for industry or economic development and considered it more appropriate that the State Government or councils, as TasWater's owners, develop policies relating to economic development separate to policies and approaches relating to pricing matters.

Developer charges include headworks charges, assets gifted by developers and cash payments made by developers to TasWater for the construction of new reticulation works.

A developer charges policy is required to be included in a regulated entity's price and service plan to be approved by the Economic Regulator. This policy covers arrangements for developers gifting assets or paying cash for the construction of new reticulation works and for setting headworks charges. The developer charges policy must be consistent with the requirements of the Industry Act and Regulation 20 of the Pricing Regulations and requires TasWater to estimate the amount of the developer charge and explain how it has been calculated.

TasWater's draft developer charges policy, as included in its proposed Price and Service Plan, was not reviewed for compliance with the relevant legislative and regulatory provisions. The Economic Regulator will work with TasWater to ensure it drafts a compliant developer charges policy. TasWater's Price and Service Plan will be required to include the final version of that policy. The Economic Regulator will also require TasWater to provide, on or before 1 July 2015, a mechanism for developers to obtain estimates of any developer charges associated with potential developments together with an explanation of how the amount of the charge was determined.

##### 6.2.5.1 *TasWater's proposed approach to developer charges*

In its proposed Price and Service Plan, TasWater proposed that developer charges include the following three components:

- Headworks – a capital contribution towards consumption of capacity in water or sewerage network, or its expansion, which results from a development. These charges are usually levied on a per property/lot basis in a subdivisional development;

- Works internal – any infrastructure which is internal within a subdivision, up to the property boundary, is installed at a developer’s cost and gifted (ie contributed) to TasWater; and
- Works external – where a development requires standalone assets (eg a pump station) to be installed to support the development, at the developer’s cost.

TasWater also proposed continuing the current arrangements whereby charges associated with works internal and works external will be recovered on a cost reflective basis through direct payment or gifting of assets.

***The Economic Regulator requires TasWater to retain the current arrangements for developer charges associated with works internal and works external.***

In relation to headworks charges, TasWater outlined in its proposed Price and Service Plan its intention to depart, for the most part, from the current net present value (NPV) methodology. TasWater’s draft policy involved removing headworks charges for all development that is in areas where there is sufficient existing capacity or is consistent with TasWater’s immediate infrastructure growth plans. In addition, TasWater proposed introducing ‘out of sequence charges’ for developments that require TasWater to bring forward works ahead of schedule and introducing ‘isolated development charges’ if the proposed development is outside of TasWater’s growth plans.

A summary of its approach to headworks charges, as outlined in TasWater’s proposed Price and Service Plan, is provided below:

- No charge where a proposed development lies within the existing network capacity or is consistent with TasWater’s immediate infrastructure growth plans that would deliver the required capacity.
- An ‘Out-of-Sequence’ Development’ charge equivalent to the funding cost for undertaking planned works earlier than would otherwise be the case where a proposed development is within TasWater’s 10 year Capex plan but is brought forward to cater for the new development.
- An ‘Isolated Development Charge’ would apply where a proposed development is outside TasWater’s 10 year Capex plan, with the developer paying all infrastructure costs for their development.

#### 6.2.5.2 State Government Headworks Waiver

The State Government introduced its Headworks Waiver on 1 April 2014, which provides support to new developments by waiving headworks charges for qualifying developments.

The scheme is designed to stimulate economic development by bringing forward pending and new developments. Accordingly, it applies:

- only to the headworks component of developer charges; and

- to developments where headworks become due and payable within the eligibility period 1 April 2014 and 31 March 2016 inclusive.

#### 6.2.5.3 Approach to headworks charges approved under the 2012 price determination investigation

As part of its 2012 price determination investigation the Economic Regulator approved the previous regulated entities' developer charges policies which specified that the entities would adopt a NPV methodology for determining headworks charges. During the 2012 price determination investigation the Economic Regulator considered that a NPV methodology for determining headworks charges was appropriate as it considered that this approach satisfied the Pricing Principles (referred to in section 5.1 of this Final Report).

The key principle of the NPV methodology is that the cost of providing water and sewerage services for a specific development area is fully recovered from the development through a combination of upfront charges and future periodic charges without placing an additional financial burden on existing customers. This includes full cost recovery from new customers regardless of whether the development is a green field site or redevelopment of a brown field site.

In applying this approach, two similar areas may therefore have different developer charges based on whether the water and sewerage system in the respective area has spare capacity to accommodate the increased demand that will result from the development. This locational price signalling was considered critical to the justification for regional-based postage stamp pricing in the 2012 price determination investigation.

The NPV methodology requires a regulated entity to identify geographical areas, called headworks zones. The value of the assets required to service the specific area is identified as is the amount the regulated entity will receive in periodic charges in excess of operating requirements. Using the NPV methodology, the costs and revenues are reconciled to a single value by discounting them to today's dollars. The headworks charge is calculated as the difference between the value of the assets required to service the headworks zone and the amount to be funded by periodic charges over a specified time period (as calculated by the present value of the periodic charges).

Table 6.6 demonstrates how, under current arrangements, headworks charges vary considerably across Tasmania.

**Table 6.6 TasWater 2014-15 headworks charge per ET (selected locations only)**

	Water (\$)		Sewerage (\$)
Beauty Point	551	Wayatinah	80
Granton (west)	617	Smithton	673
King Island	1 684	Scottsdale	896
Smithton	3 394	Devonport	3 156
Tunbridge	11 754	Woodbridge	8 196
Conara	33 909	Exeter	8 255

According to TasWater’s Corporate Plan, total revenue from headworks charges has exceeded \$3 million per annum in recent years. The revenue received from these charges is not included in TasWater’s RAB as this contribution to assets was funded externally.

The inclusion of ‘sunk’ assets, particularly where their depreciated value is still high, in the headworks charges can result in a disincentive for developers to locate their developments where they can take advantage of existing capacity. The NPV approach can result in situations where locations that have received new infrastructure and that planning authorities consider appropriate for development are disadvantaged compared to areas where new infrastructure investment has not occurred and development is considered less appropriate.

The argument that least cost provision of services generally entails utilising existing capacity where possible before investing in network augmentation provides an incentive to depart from the NPV methodology and to consider approaches that encourage developments to occur where it is least costly.

It should be noted that TasWater will be required to continue to calculate service introduction charges (see Section 6.2.8 of this Final Report) based on a NPV methodology to ensure that existing customers do not subsidise the addition of new ones where a service is introduced. Service introduction charges are not levied on new developments to which developer charges apply.

#### *6.2.5.4 Other possible approaches to headworks charges*

In relation to TasWater’s proposed approach to calculating and imposing headworks charges, the Economic Regulator noted, in its Draft Report, that it is important that TasWater develop a robust and transparent process for determining whether there is excess capacity within the network and whether a proposed development is ‘in sequence’.

The Economic Regulator therefore identified three further approaches that could be applied to the calculation and imposition of headworks charges, based on its review of approaches adopted in other jurisdictions and its own analysis. These options reflected alternative views on which costs are properly attributable and recoverable from new developments under various scenarios.

The three options are as follows:

- Standardised headworks charges – this approach would apply a flat rate charge and would be consistent with an overriding rationale of maintaining a simplified system that treats all customers in a similar manner.
- Uniform nominal headworks charging except for isolated developments – similar to the standardised charging approach above, this approach would apply a flat rate charge (at a lower ‘nominal’ rate) to all locations except for locations that are either not currently within TasWater’s serviced land (see Section 6.1) or are not direct extensions to TasWater’s serviced land. Developers of these isolated projects would face headworks charges calculated according to the NPV based on the infrastructure TasWater would

be required to provide and the future revenue it would receive from those assets. The nominal rate would be lower than the standardised flat rate charge.

- Within serviced land approach – this approach would apply a low/nominal flat rate charge to all developments within serviced land and a higher flat rate charge to all developments that constitute extensions to TasWater’s serviced land. Developers of isolated projects would, once again, face headworks charges calculated according to the NPV based on the infrastructure TasWater would be required to provide and the future revenue it would receive from those assets.

#### *6.2.5.5 Assessment of possible approaches to headworks charges*

The Economic Regulator’s criteria for assessing possible approaches to headworks charges included ensuring that the approach is consistent with the statutory Pricing Principles. In this regard, the Economic Regulator considered it desirable that the approach to headworks charges is:

- cost reflective;
- transparent;
- provides certainty for developers; and
- is simple to administer.

A summary of the different headworks charging approaches considered by the Economic Regulator as outlined in its Draft Report together with their respective advantages and disadvantages is included in Table 6.7 and Table 6.8.

Table 6.7 Summary of headworks charging approaches

Charging approach for Headworks	Network Capacity and Development Scenarios			
	No new capacity required in near future	New capacity required in near future – in-sequence	New capacity required in near future – out-of-sequence	New capacity required in near future – ‘isolated’ development
<b>IPART NPV approach – current situation</b>	NPV calculation based on existing assets	NPV calculation based on existing and required assets	NPV calculation based on existing and required assets	NPV calculation based on assets required
<b>‘Out-of-sequence costs only’ approach – TasWater proposed</b>	No charge	No charge	NPV calculation based on cost of bringing works forward	Developer pays full cost
<b>Standardised Headworks charging</b>	Standardised flat charge*	Standardised flat charge*	Standardised flat charge*	Standardised flat charge*
<b>Uniform nominal charging except for isolated developments</b>	Nominal flat charge^	Nominal flat charge^	Nominal flat charge^	NPV calculation based on assets required
<b>‘Within serviced land’ approach</b>	Nominal flat charge^ (within serviced land) Standardised flat charge* (extension to serviced land)	Nominal flat charge^ (within serviced land) Standardised flat charge* (extension to serviced land)	Nominal flat charge^ (within serviced land) Standardised flat charge* (extension to serviced land)	NPV calculation based on assets required

\* In its Draft Report, the Economic Regulator proposed that this charge could be set at around \$2500 per ET per service. This would reflect the approximate median charge currently set by TasWater for headworks per service (ie water and sewerage). The headworks charge applied by many other water and sewerage authorities that use a standardised charge in other jurisdictions is also approximately \$2 500 per service.

^ In its Draft Report, the Economic Regulator proposed that this charge could be set as low as \$0 - \$250 per service, particularly if it is evident that very few locations within serviced land will need network augmentation in the near future.



**Table 6.8 Summary assessment of potential headworks charges options**

Option	Advantages	Disadvantages
<b>IPART NPV approach - Current approach</b>	Fully recovers costs (ie lower customer bills for recurrent charges)	Potential to send inappropriate locational price signals Complex to administer and difficult to understand
<b>Out-of-sequence costs only – TasWater proposed</b>	May send locational price signal based on existing capacity In areas with existing capacity, existing customers benefit from zero charging because fixed costs are spread over a larger customer base Less complex to administer Reasonably easy to understand	Likely tension between cost recovery and application of efficient pricing principles under the Industry Act (as likely to lead to very few headworks payments) Inequitable for developers to pay all costs for isolated developments (given the expected future revenue stream to TasWater) Over time will transfer significant revenue burden to existing customers as there will be minimal headworks charges netted off the RAB relative to current arrangements Determining existing capacity and when new capacity may be required may be problematic, non-transparent and lead to implementation in ways not intended Useful, accurate and robust sequencing plans may be difficult to develop and maintain and lead to complexity, lack of transparency and uncertainty
<b>Standardised Headworks charging</b>	Simple to administer and understand Provides certainty to developers	Does not provide any locational price signals which may encourage development in areas that are expensive for TasWater to service Inconsistent with cost reflective pricing principles under the Industry Act
<b>Uniform nominal charging except for isolated developments</b>	Simple to administer and understand Provides certainty to developers	Locational price signals limited to isolated developments only Inconsistent with cost reflective charging principles under the Industry Act
<b>'Within serviced land' approach</b>	Less complex to administer Reasonably easy to understand May send more appropriate locational price signals Economic Regulator already approves serviced land boundaries which are likely to be better defined and therefore less open to uncertainty and lack of transparency than asset 'sequencing' plans Better capacity for third party review of whether locations are in/not in serviced land compared to whether locations are in/not in asset 'sequencing' plans	Locational signals are not linked to capacity and may not reflect whether additional headworks are required Serviced land boundaries exist at a point in time and don't account for future planned extensions to serviced land

In its Draft Report, the Economic Regulator noted that, in principle, most aspects of TasWater's proposed approach to headworks charges were considered to be consistent with the Pricing Principles.

TasWater's approach recognised that new developments can impose costs in the form of extensions or upgrades to its network and that existing customers benefit when new customers connect. This benefit arises because fixed costs are spread over a larger customer base and supports the argument that a headworks charge not be imposed upon developments occurring in areas within the existing network capacity.

However, in order to implement its proposal, a key prerequisite would be for TasWater to develop a Strategic Asset Management Plan outlining capital plans to meet planned growth. In its Draft Report, the Economic Regulator noted a concern that these plans could result in the revenue derived from headworks charges being almost negligible ie these plans could be prepared in such a way that resulted in no (or very few) new developments being classified as 'out-of-sequence' or unplanned, and therefore subject to headworks charges. The effect on customer bills of not imposing headworks charges would be an increase of approximately \$5.60 per bill per annum after five years and increasing by a further \$1.10 per bill year on year.<sup>7</sup>

TasWater stated in its proposed Price and Service Plan that one rationale for the proposed shift in approach was the need for a headworks charges policy that "incentivises development in line with strategic land use planning"<sup>8</sup>.

The Economic Regulator acknowledged in its Draft Report that, prior to the announcement of the State Government's current headworks waiver, there was a perception in the building industry that the level of headworks charges was detrimental to economic growth and investment across the residential and commercial sectors.

The Economic Regulator considered, however, that measures that support economic activity are more appropriately funded by the relevant level of government and not by TasWater's customers.

The Economic Regulator considered it inequitable to require developers to pay all the headworks costs associated with 'isolated' developments given the expected future revenue stream to TasWater. However, the Economic Regulator also acknowledged that a major risk to TasWater associated with isolated developments was that of 'stranded assets' ie where an investment is made which fails to generate the expected cash flows. After the costs of managing these stranded assets are taken into account these developments may actually have a negative NPV.

The Economic Regulator considered that if an isolated development was considered to be 'high risk', this risk could be managed by applying a loading to the developments' headworks charge reflecting the probability of the assets being

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<sup>7</sup> Frontier Economics unpublished report (February 2014), commissioned by TasWater.

<sup>8</sup> TasWater, *Proposed Price and Service Plan 2015-18*, p.83.

stranded ie the more speculative the development is, the greater the risk of stranding and consequently the higher the headworks charge.

Table 6.8 shows that the various ways in which costs are attributable and recoverable from new developments under the options proposed in the Economic Regulator’s Draft Report result in each approach having its own advantages and disadvantages. Further, there is no perfect solution that will satisfy all stakeholders’ objectives and legislative requirements on how to apply developer charges. In addition, the appropriate level of developer contributions in areas of modest growth with a large existing population is likely to be different from that in a high growth area with a limited existing population base.

In summary, the Economic Regulator considered that:

- some proportion of growth related costs should be recovered upfront from developers rather than over time from customers through recurrent charges;
- there are benefits in a headworks charging approach that is simple and provides certainty and a relatively level playing field for developers; and
- a sensible headworks charging approach should encourage developers to use existing capacity where it exists before requiring TasWater to invest in network augmentation.

In its Draft Report, the Economic Regulator therefore proposed requiring TasWater to adopt the ‘within serviced land’ approach as it provided a balance between certainty, transparency, cost reflective pricing and the recovery of the cost of providing water and sewerage services from those who benefit from the services.

The Tasmanian Government’s submission on the Draft Report stated its preferred approach is that headworks charges not be imposed in locations where existing or planned capacity is utilised.

TasWater’s submission stated that it remained committed to the headworks charging approach outlined in its proposed Price and Service Plan (involving headworks charges being imposed only in locations where there isn’t any existing capacity and development is not consistent with TasWater’s immediate infrastructure growth plans). However, TasWater now considered that headworks charges should not be applied at all during the second regulatory period given that the current timing of the development of its Strategic Asset Management Plan<sup>9</sup> creates a degree of uncertainty with its preferred longer-term approach.

Whilst TasWater did not provide any indication of the extent or location of unutilised capacity that exists within its network, the Economic Regulator accepts that

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<sup>9</sup> TasWater’s Asset Management Plan is to be submitted to the Economic Regulator by 30 June 2015 and is to be subject to an independent audit by 31 August 2015.

developments within serviced land benefit existing customers when new customers connect because fixed costs are spread over a larger customer base.

In relation to developments that represent extensions to serviced land, the Economic Regulator accepts that many of these developments are also likely to utilise existing capacity.

***The Economic Regulator requires TasWater to not impose a headworks charge for developments within serviced land.***

***The Economic Regulator requires TasWater to not impose a headworks charge for developments occurring outside of serviced land but that utilise existing capacity.***

However, the Economic Regulator considers that for a headworks charging approach to encourage the use of existing capacity, some locational price signals must be applied and be linked to capacity. Therefore, for any development that represents both an extension to serviced land and requires TasWater to undertake works (not covered by ‘works external’ arrangements), the Economic Regulator considers that TasWater should impose a headworks charge on the component of that development that cannot be satisfied by existing capacity. The Economic Regulator also considers that the NPV methodology is an appropriate methodology to apply in making this calculation.

The Economic Regulator also considers it appropriate that TasWater continues to adopt the NPV methodology for determining headworks charges for isolated developments.

For developments relating to extensions to serviced land or to isolated developments, the Economic Regulator acknowledges that there may be relatively few occasions where the application of a headworks charge is necessary as the developer charges associated with works internal and works external may, in some instances, incorporate all necessary works.

***The Economic Regulator approves TasWater imposing a headworks charge, calculated using the NPV methodology, on the component of a development that cannot be satisfied by existing capacity for developments occurring outside serviced land. This incorporates developments relating to extensions to serviced land and to isolated developments.***

Following the release of this Final Report, the Economic Regulator will work with TasWater to ensure it drafts a compliant developer charges policy. TasWater’s final Price and Service Plan will be required to include the final version of that policy.

***The Economic Regulator requires TasWater to draft a compliant developer charges policy and to include the final version of that policy in its final Price and Service Plan.***

### 6.2.6 Trade waste charges policy

Trade waste means the liquid waste generated by any industry, business, trade or manufacturing process. As the definition of “sewage” under section 3 of the Industry Act includes trade waste, the disposal, removal and treatment of trade waste is a regulated service.

In accordance with the Economic Regulator’s PSP Guideline, TasWater was required to develop a trade waste charges policy outlining how it intends categorising and treating trade waste customers.

The PSP Guideline also specifies that TasWater’s price and service plan is to describe and justify any changes to its current trade waste policy and submit the policy it is proposing to apply during the second regulatory period. If TasWater proposes departing from the currently approved arrangements it is required to outline how the proposed arrangements better meet the Pricing Principles.

The PSP Guideline further stipulates that TasWater’s trade waste charges policy must include an undertaking that prices negotiated with Category 3 and Category 4 trade waste customers will reflect a reasonable price transition period recognising the time it would take for a trade waste customer to implement appropriate pre treatment if it intended to do so. This requirement was also articulated in the Final Report of the Economic Regulator’s 2012 Price Determination Investigation.

As discussed, TasWater was required to submit a draft trade waste charges policy for the Economic Regulator’s approval. However, as part of its proposed Price and Service Plan, TasWater submitted both a draft liquid trade waste policy and a draft liquid trade waste charges policy. In its Draft Report, the Economic Regulator signalled its intention to require TasWater to amalgamate the two draft policies into a single draft trade waste charges policy for approval. Notwithstanding this intention, the Economic Regulator reviewed both submitted draft policies for compliance with all obligations under the relevant regulatory and legislative instruments. This review identified numerous instances of non-compliance with the PSP Guideline.

***The Economic Regulator requires TasWater to amalgamate its draft liquid trade waste policy and its draft liquid trade waste charges policy into a single draft trade waste charges policy for the Economic Regulator to approve.***

The draft trade waste charges policy put forward in TasWater’s proposed Price and Service Plan was largely the same as the existing policy and charging arrangements. The most significant change relates to the modification of trade waste customer categories using a risk assessment of trade waste impacts on the sewerage system as the basis for categorising and calculating trade waste charges. Since the merger of the regional entities, TasWater has reviewed trade waste prices and practices to improve consistency and compliance. As part of this process, TasWater has been working with customers to increase their understanding of the risks trade waste discharge poses for sewerage systems, the environment and public health and safety. As well as helping customers to identify ways of reducing the volume and strength of waste being disposed of through the sewerage system (through appropriate pre-treatment), TasWater believes that by educating customers

and implementing a ‘polluter pays’ principle, customers are encouraged to take more responsibility in meeting their trade waste obligations.

Under the previous regulated entities’ respective Price and Service Plans the Economic Regulator approved four categories of trade waste customers: Category 1, 2, 3 and 4. Category 1 and 2 trade waste customers were those customers assessed as having low grade or low to medium volumes of waste and the prices paid by those customers were regulated. Category 3 and 4 trade waste customers were higher risk in terms of their impact on the sewerage network and were not price regulated although the service received by those customers constituted a regulated service.

Category 1 and 2 trade waste customers were treated as tariff customers covered by a standard regulated contract under section 60 of the Industry Act (and, therefore, covered by the Code) with approval to discharge trade waste by virtue of a trade waste consent which was an addendum to the contract. On the other hand, Category 3 and 4 trade waste customers were required to enter into trade waste agreements in accordance with section 61 of the Industry Act in recognition of the fact that these customers had the ability to negotiate with the regulated entity. It was also recognised at that time that in the longer term the provision of trade waste services to large customers is often not a monopoly service as the customer may elect to pre-treat its trade waste to sewage quality waste. However, it was also accepted that arrangements to pre-treat trade waste would take time to implement and the Economic Regulator considered that, in the interim, there was a risk that the previous regulated entities may be able to exploit their monopoly status with large trade waste customers. As a result the previous entities were required to provide undertakings to mitigate this risk for Category 3 and 4 trade waste customers.

In its proposed Price and Service Plan, TasWater proposed refining the trade waste customer categories using a technical and commercial risk assessment of trade waste impacts on the sewerage system as the basis for categorising and calculating trade waste charges. More specifically, it was proposed that the existing Category 2 be split into three sub-categories to more accurately categorise trade waste customers according to their demand on the sewerage system and, therefore, the cost of delivering trade waste services to those customers.

The new risk assessment in the proposed Price and Service Plan is based on a method outlined in the *WSAA Australian Sewerage Quality Management Guideline 2012* (WSAA Guideline), which results in the previous Category 2 trade waste customers being divided into three sub-categories (2A, 2B and 2C). TasWater’s proposed Price and Service Plan outlined that a customer’s overall risk score is to be based on the following factors:

- the type of business activity being undertaken;
- the substances involved;
- any pre-treatment occurring; and
- the volume of trade waste being discharged.

The following table sets out TasWater’s forecast of the number of trade waste customers in each category for the second regulatory period together with the number of trade waste customers in each category as forecast as part of the 2012 price determination investigation:

**Table 6.9 Number of trade waste customers – comparison of 2012 and 2015 forecasts**

Category	TasWater’s 2014 forecast of number of customers during 2015-18 ( )	Previous regulated entities 2012 forecast of number of expected customers in 2014-15 ( )
1	869	3 184
2A	2 104	
2B	243	2 644
2C	251	
<b>Total</b>	<b>3 467</b>	<b>5 828</b>

As shown in Table 6.9, whilst the forecast number of Category 2 trade waste customer has remained constant, the forecast number of Category 1 trade waste customers is expected to drop significantly. The Economic Regulator sought an explanation from TasWater as to the reason for the reduction in the number of Category 1 trade waste customers and was advised that the original forecasts for the first price and service plan were based on various data sources including council information, Australian Business Register records and available land use codes. These estimates were higher than the actual number of Category 1 customers that have subsequently been identified by TasWater.

Whilst TasWater’s proposed Price and Service Plan provided information on the methodology underlying the adoption of the new customer categories, it did not provide sufficient information on how the policy would actually work in practice, especially in relation to the allocation of customers into different categories. On the latter point, TasWater’s proposed Price and Service Plan provided only a general reference to the categorisation being based on the principles set out in the WSAA Guideline.

The Economic Regulator also noted the inconsistent use of terms and document titles within TasWater’s draft trade waste policy, as was the case with a number of TasWater’s other draft policies. As an example, in the ‘Associated Documents/References’ section of TasWater’s draft liquid trade waste charges policy reference is made to the ‘Liquid Trade Waste Guideline’ yet this document is referred to in TasWater’s draft liquid trade waste policy as the ‘TasWater Trade Waste Guideline’. Correctly citing source or reference documents is paramount to ensuring the legality and accuracy of the policy documents and also to avoid confusing customers about their obligations.

***The Economic Regulator requires TasWater to amend its draft liquid trade waste policy to correct the inconsistent use of terms and document titles.***

The Economic Regulator informed TasWater of the shortcomings of its proposed Price and Service Plan with respect to trade waste and required TasWater to provide further information and/or explanation.

In response to the Economic Regulator's request for further clarification about the operation of its draft trade waste policy in general and the categorisation of customers in particular, TasWater provided a presentation on its draft trade waste policy.

TasWater's presentation also included a demonstration of a prototype of an Excel spreadsheet model it was developing (a Trade Waste Category Calculator) to allow trade waste customers to self-assess their respective trade waste category and the associated annual charges.

The Economic Regulator noted that, in using the proposed Trade Waste Category Calculator, the customer was required to only enter the type of business activity they were engaged in from a drop down list together with their anticipated annual water consumption.

***The Economic Regulator requires:***

- (1) TasWater to provide, on its website, a final version of its Trade Waste Category Calculator so that it is available to trade waste customers and the public generally; and***
- (2) that the Trade Waste Category Calculator links to relevant policies and other supporting materials released by TasWater in relation to trade waste to assist customers in understanding their trade waste obligations and in undertaking the self assessment process.***

As explained above, TasWater's proposed categorisation of trade waste customers has been based on a risk based approach, outlined in the WSAA Guideline. However, the Economic Regulator understands that the WSAA Guideline is not publically available.

***The Economic Regulator requires TasWater to clearly outline, and publish, the methodology on which it has based its trade waste customer categorisation in its trade waste charges policy.***

During consultation on the Economic Regulator's Draft Report, issues were raised about the accuracy of TasWater's proposed 'trade waste discharge factor'<sup>10</sup>. In response, TasWater advised that it has adopted trade waste discharge factors from the NSW Department of Water and Energy (April 2009) – *Liquid Trade Waste Regulation Guidelines*. TasWater also noted that these discharge factors have been directly matched to the relevant trade waste activities used by TasWater where applicable. However, TasWater also advised that, in some cases, a direct match

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<sup>10</sup> A trade waste discharge factor is the percentage of metered water consumption considered to represent the volume of trade waste discharged to the sewer.



may not be available, or additional assumptions may have been made in determining the discharge factors. In these instances the Economic Regulator has decided that TasWater will be required to disclose details of the departures from the *Liquid Trade Waste Regulation Guidelines* together with the reasons for adopting revised factors. In its submission TasWater has also undertaken to investigate and collect additional data during the second regulatory period. The Economic Regulator considers this to be an appropriate way of improving the accuracy of TasWater's trade waste discharge factors.

***The Economic Regulator requires TasWater to disclose details of any instances where it has departed from the discharge factors specified in the NSW Department of Water and Energy's (April 2009) Liquid Trade Waste Regulation Guidelines together with a justification for the adoption of any revised factors.***

***The Economic Regulator also requires TasWater to include in its Price and Service Plan an undertaking to collect data during the second regulatory period with the objective of improving the accuracy of its trade waste discharge factors.***

Another submission on the Draft Report questioned TasWater's decision to impose trade waste charges on owners rather than tenants. Upon request, TasWater explained that it had adopted this approach as it provided administrative efficiencies for both TasWater and the customer and also gave TasWater greater security of revenue. The Economic Regulator considers TasWater's approach to be appropriate noting that it complies with the relevant legislative requirements.

The Economic Regulator's review of TasWater's proposed Price and Service Plan identified issues in relation to the proposed treatment of Category 3 and 4 trade waste customers. The Economic Regulator expects that a regulated entity's trade waste charges policy would detail the entity's position on, and relevant procedures concerning, its interactions with all trade waste customers. However, TasWater's draft liquid trade waste charges policy related only to Category 1 and Category 2 trade waste customers ie TasWater's proposed Price and Service Plan did not discuss trade waste arrangements for Category 3 and Category 4 trade waste customers. Furthermore, the draft liquid trade waste charges policy did not include an undertaking that prices negotiated with Category 3 and Category 4 trade waste customers would reflect a reasonable transition period recognising the time it would take for a trade waste customer to implement appropriate pre-treatment if it intended to do so. As a result, the draft policy was not compliant nor did it provide a means by which TasWater's trade waste customers could gain an understanding of their respective obligations with respect to trade waste.

During the course of the investigation the Economic Regulator also reminded TasWater of the requirement to demonstrate how the proposed charges for Category 3 and 4 trade waste customers reflected a reasonable transition path for those customers. In response, TasWater provided a presentation to the Economic Regulator which outlined how Category 3 and 4 customers would be treated under the next regulatory period. TasWater explained that volume charges approved by

the Economic Regulator for the first regulatory period would continue to be used (ie charges are based on the cost to treat a kilolitre of wastewater) and that mass load charges for pollutants taken from *NSW Liquid Trade Waste Guidelines 2009* and CPI-based indexation would also be added to the charge. TasWater explained that the intention was to apply full cost charges to all Category 3 and 4 customers with pre-treatment milestones included in specific Industrial Transitional Agreements with those customers.

In response to a request from the Economic Regulator, TasWater also gave an example of a transition path for a Category 3 or Category 4 customer as one where the customer had been previously approached about trade waste compliance by a regional corporation but had not made any attempt to comply with its trade waste obligations. In this example, there wasn't any data available on produced waste quality nor had the customer undertaken any onsite pre-treatment. In a situation such as this, TasWater proposes charging 10 per cent of cost in the first year, require sampling points to be installed and impose short term sewer acceptance limits. In the second year TasWater proposes increasing the charge to 40 per cent of cost and add additional compliance requirements, such as the installation of an attenuation tank, discharge flow meter and automated pH correction. The third year would see the charge increased to 70 per cent of cost and an increased compliance monitoring program introduced. The fourth year would see the price transition to 100 per cent of cost and would require long term sewer acceptance limits to be met.

The Economic Regulator considers that TasWater's proposed transition path with respect to Category 3 and 4 trade waste customers, as explained in the above example, appears to be reasonable.

***The Economic Regulator requires TasWater to include, in its final Price and Service Plan and in its trade waste charges policy, an undertaking that prices negotiated with Category 3 and Category 4 trade waste customers will reflect a reasonable transition period (and explaining what this transition period entails) recognising the time it would take for a trade waste customer to implement appropriate pre-treatment if it intended to do so.***

With respect to Category 1 and Category 2 trade waste customers, TasWater's proposed Price and Service Plan outlined that customers above the target tariff at the start of the period will transition down by one third of the gap to the 2018 target tariff in each year of the second regulatory period, and customers below target will transition up to the target tariff in the same manner.

In addition to the target tariffs, TasWater has proposed continuing charging Category 1 and Category 2 trade waste customers an application fee and non-compliance fees similar to the price structure approved in 2012. The application fee is standardised and is intended to cover the average time required to assess a trade waste application. TasWater also proposes continuing to levy non-compliance charges, enabling the recovery of costs associated with a trade waste customer failing to comply with the conditions of an agreement or consent, or failing to obtain approval for discharge of trade waste to sewer. The multipliers used to calculate the non-compliance charges are applied to reflect either a minor or major non-compliant

event. Minor non-compliance refers to single event which does not have a significant impact on the sewer. Major non-compliance events are those that are expected to cause significant impact on the sewerage network, the receiving environment or public health and safety. TasWater’s proposed trade waste charges for the 2015-18 regulatory period are outlined in the following table:

**Table 6.10 Proposed Trade Waste Charges for the 2015-18 regulatory period**

Trade Waste Category	Application Fee	Target Tariff	Non-Compliance Charge (Minor)	Non-Compliance Charge (Major)
1	\$134.80	\$520.76	\$1 041.54	\$1 562.28
2A	\$134.80	\$853.60	\$1 707.16	\$2 560.76
2B	\$134.80	\$1 197.80	\$2 395.60	\$3 593.40
2C	\$134.80	\$1 796.40	\$3 592.84	\$5 389.28

TasWater considers that the proposed fees are reflective of the expected infrastructure and operational costs incurred by compliant businesses that have been required to install pre-treatment within the second regulatory period. TasWater proposes that it will index trade waste charges for Category 1, Category 2A, Category 2B and Category 2C trade waste customers by 2.5 per cent each year. The Economic Regulator notes that the indexation rate of 2.5 per cent per annum is consistent with TasWater’s proposed rate for the indexation of miscellaneous charges and is broadly reflective of recent Consumer Price Index changes.

The Economic Regulator also notes that, compared to the fees approved in 2012, the proposed application fee for Category 2 trade waste customers has halved and that the non-compliance charges (major) are substantially lower than those approved by the Economic Regulator for the first regulatory period.

The Economic Regulator was unable to identify any directly comparable pricing structures for other service providers to benchmark against and has decided, based on the preceding discussion, to approve TasWater’s proposed trade waste charges.

***The Economic Regulator approves:***

- (1) the proposed trade waste charges in respect of Category 1, Category 2A, Category 2B and Category 2C trade waste customers for the 2015-16 financial year, as outlined in Table 6.10; and***
- (2) the annual indexation of TasWater’s proposed trade waste charges for Category 1, Category 2A, Category 2B and Category 2C trade waste customers by 2.5 per cent for each of the 2016-17 and 2017-18 financial years.***

### 6.2.7 Service extension and expansion policy

Section 56J of the Industry Act requires TasWater, as a regulated entity, to include in its proposed Price and Service Plan a policy that sets out the circumstances in which TasWater will extend and expand its water infrastructure and sewerage

infrastructure. It is also a requirement that this policy include the terms and conditions that will apply to such an extension or expansion.

The Economic Regulator's PSP Guideline replicates these legislative provisions, specifying that TasWater's extension and expansion policy must:

- distinguish between expansion and an extension;
- set out the circumstances in which TasWater will extend and expand its water infrastructure and sewerage infrastructure, including the circumstances in which it will extend or expand its water infrastructure or sewerage infrastructure at the request of a person;
- include the terms and conditions that will apply to such an extension or expansion;
- explain how extensions and expansions will be paid for; and
- be consistent with the Pricing Principles outlined in section 4.1 of the PSP Guideline.

As noted in section 4.7 of the PSP Guideline, the land which TasWater will permit to be connected to its water infrastructure or sewerage infrastructure (serviced land) must be described in the TasWater's connection policy developed under section 56U(1)(a) of the Industry Act. TasWater's approach to connecting land that is outside serviced land to TasWater's infrastructure must also be described in TasWater's extension and expansion policy.

TasWater's extension and expansion policy is to, therefore, take into account serviced land as discussed in section 4.7 of the PSP Guideline and its connection policy developed under section 56U(1)(a) of the Industry Act.

In addition, TasWater's extension and expansion policy is to be consistent with its developer charges policy prepared in accordance with Regulation 8 of the Pricing Regulations and the PSP Guideline.

TasWater included a draft service extension policy as an attachment to its proposed Price and Service Plan. As with the other policies provided, the Economic Regulator reviewed TasWater's draft service extension policy for compliance against the relevant regulatory and legislative requirements.

First and foremost, and as the title of the draft policy would suggest, the Economic Regulator identified that the policy document did not include any discussion with respect to the expansion of TasWater's water infrastructure and sewerage infrastructure. In this way, the draft policy contravened the Industry Act and PSP Guideline.

The draft policy did not fulfil the requirements of the Economic Regulator's PSP Guideline as it did not describe TasWater's approach to connecting land that is outside serviced land to TasWater's infrastructure. In addition, the draft policy required qualification of intent or process with respect to certain matters, including

the liability for payment for service extension and service expansion. More generally, the draft policy provided limited information and lacked clarity for customers (or potential customers) on TasWater’s procedures and conditions to be imposed with respect to extension. The Economic Regulator’s review process also identified defined terms not being used within the policy document. These defined terms are redundant and the Economic Regulator suggests these terms be removed by TasWater.

The Economic Regulator subsequently offered TasWater comments with respect to the aforementioned issues to assist it in developing a fully compliant and functional service extension and expansion policy for submission as part of TasWater’s final Price and Service Plan.

In addition, there were no issues raised as part the consultation process on the Economic Regulator’s Draft Report with respect to the accuracy and compliance of TasWater’s draft service extension policy which have resulted in any subsequent amendments to the Economic Regulator’s position on these matters.

***The Economic Regulator requires TasWater to revise its draft service extension policy to:***

- (1) meet the obligations of the Industry Act and PSP Guideline by addressing matters pertaining to service expansion; and***
- (2) address the comments and questions raised by the Economic Regulator (as forwarded to TasWater simultaneous to the release of the Economic Regulator’s Draft Report for community consultation) to ensure the policy’s compliance and accuracy.***

#### 6.2.8 Service introduction charges policy

The Pricing Regulations state a price determination may require a regulated entity’s price and service plan to include a policy in respect of service introduction charges. The policy must be consistent with the requirements of the Pricing Regulations and specify how the regulated entity will determine and apply service introduction charges consistent with the Pricing Principles.

TasWater has structured its service introduction charges policy in terms of ‘introduction of service’ and ‘service introduction charges’.

##### 6.2.8.1 Introduction of service

‘Service introduction’ refers to the construction of water infrastructure and/or sewerage infrastructure to provide reticulated water and/or sewerage services in areas not previously receiving those services. The Economic Regulator noted that the definition provided in TasWater’s draft service introduction charges policy was different from the above, and contained confusing terminology. The Economic Regulator subsequently provided comments to TasWater directly about these issues.

In its draft service introduction charges policy, TasWater stated that a service introduction proposal will only proceed if it is deemed commercially viable. TasWater proposes for the second regulatory period that, in order to meet the commercial viability test, 80 per cent of property owners in a proposed service area must support the introduction of water and/or sewerage services to that area. TasWater also stated that it will require 80 per cent of property owners to enter into a contract committing to a property service connection before a proposed service introduction will advance to a detailed design stage.

Any contract entered into by TasWater and a person outside of serviced land is neither a customer contract nor a contract entered into under section 61 of the Industry Act (defined as a contract with a customer that is not a customer contract). Therefore, such a contract is not regulated by the Economic Regulator. However, the Pricing Regulations stipulate a number of requirements that an entity must fulfil in respect to the owner of a property to which a service introduction charge relates. TasWater has stated its intentions to fulfil these requirements in its draft service introduction charges policy.

TasWater noted that, where the absence of water and/or sewerage services is causing significant and/or wide scale environmental harm and/or public health issues, as identified by the relevant industry regulator/s, it may consider the introduction of new water services and/or sewerage services to areas not within serviced land. TasWater notes that a funding model for such projects has not yet been determined.

The Economic Regulator considers that this principle is consistent with the Pricing Principles for two reasons. Firstly, in accordance with section 68(1)(a) of the Industry Act, a regulated entity is to be given a reasonable opportunity to recover the efficient costs it incurs in providing a regulated service. Secondly, noting the preceding point, the circumstances under which a service is introduced for environmental and/or public health reasons may not be consistent with the standard service introduction process<sup>11</sup>. A degree of flexibility is therefore required in determining a funding model for a service introduction based on public health and/or environmental issues.

***The Economic Regulator requires TasWater to re-draft its definition of ‘service introduction’ as stated in its service introduction charges policy, with the definition provided in the PSP Guideline being the preferred option.***

#### 6.2.8.2 Service introduction charges

A ‘service introduction charge’ is defined in the Pricing Regulations as *“a charge, in respect of a property, that relates to the installation, alteration or utilisation of assets by a regulated entity so as to enable the provision by the entity of a regulated service to the property but does not include –*

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<sup>11</sup> For example, if a relevant government agency or body determines that the introduction of reticulated service is necessary for public health and/or environmental reasons, but the regulated entity is unable to gain the threshold 80 per cent community commitment to a service connection.

- a) *a connection charge; or*
- b) *a fixed charge; or*
- c) *a developer charge.”*

TasWater proposed that service introduction charges will be calculated based on the NPV of the cost of providing the assets specific to the service introduction, less the present value of the amount to be recovered through upfront and ongoing water and/or sewerage charges imposed on the customers who are to receive the benefit of the new service/s (ie the service area customer base). The present value of the upfront and ongoing water and/or sewerage charges imposed on those customers is calculated based on the minimum percentage of 80 per cent of property owners that are required to commit to a service before a service introduction will proceed.

Consistent with the Pricing Principles, the policy states that the owner of a property subject to a service introduction charge may pay the charge over a period of 12 months or, at the owner’s request, over a period of less than 12 months.

The Economic Regulator notes that the definition of service introduction charge in the Pricing Regulations implies that a property owner is liable to pay the service introduction charge from the date on which that property is able to connect to and use a regulated service. However, as this policy is to be a public document, the Economic Regulator requires TasWater to make this explicit.

Finally, the Economic Regulator has identified one instance of non-compliance with the service introduction charges section of TasWater’s proposed Price and Service Plan. The PSP Guideline states that a proposed price and service plan must include an undertaking by the regulated entity that it will calculate and publish proposed service introduction charges per property, per service, prior to undertaking community consultation on any intended service extension that will be subject to service introduction charges. No such undertaking has been included in TasWater’s discussion of the service introduction process.

***The Economic Regulator requires TasWater to:***

- (1) amend the definition of ‘service introduction charge’ to mirror that defined in the Pricing Regulations;***
- (2) clarify the preconditions for imposing a service introduction charge on an owner of a property eg upon connection, upon service availability, prior to service availability etc; and***
- (3) include an undertaking that it will calculate and publish proposed service introduction charges per property, per service, prior to undertaking community consultation on any intended service extension subject to service introduction charges.***

## 6.2.9 Other policies relating to TasWater’s interactions with customers and potential customers

In accordance with the Economic Regulator’s PSP Guideline, TasWater included, in its proposed Price and Service Plan, all of its internally approved policies relating to its interactions with customers and potential customers. Two such policies were provided, namely, TasWater’s policies with respect to complaints and financial hardship. The Economic Regulator reviewed these policies for compliance against the requirements set out in the relevant regulatory and legislative instruments. An overview of the assessment outcomes is provided below.

### 6.2.9.1 *Complaints, enquiries and disputes management policy*

The Customer Service Code specifies the minimum standards and conditions of service and supply that a regulated water and sewerage entity must comply with, including the adoption of certain policies and procedures.

It is a requirement under the Customer Service Regulations that the Customer Service Code specify that a regulated water and sewerage entity have a policy about customer complaints and the resolution of disputes between customers and the entity.

The Customer Service Regulations provide explicit detail on what must be specified in that policy. Such regulatory obligations have been mirrored in clause 4.1 of the Customer Service Code (Complaints, disputes and customer enquiries) to make clear to an entity what information, at a minimum, must be provided in its complaints, enquiries and disputes policy.

The Economic Regulator identified several areas of non-compliance with TasWater’s draft complaints, enquiries and dispute management policies and brought these to TasWater’s immediate attention. TasWater subsequently chose to re-draft and re-submit the policy. The revised draft was received by the Economic Regulator on 3 October 2014.

The title of the draft policy was amended to be the “Customer complaints, enquiries and disputes management policy” and the revised policy had been extended to cover all requisite inclusions as outlined in clause 4.1 of the Code. A copy of the revised draft policy was subsequently published on the Economic Regulator’s website.

To this end, the Economic Regulator considers TasWater’s draft customer complaints, enquiries and disputes management policy appeared to be consistent with the objectives of the Customer Service Regulations and the Code.

In addition, there were no issues raised as part the consultation process on the Economic Regulator’s Draft Report with respect to the accuracy and compliance of TasWater’s draft customer complaints, enquiries and disputes management policy which have resulted in any subsequent amendments to the Economic Regulator’s position on these matters.



***The Economic Regulator requires TasWater to amend its draft customer complaints, enquiries and disputes management policy to ensure its accuracy and compliance with the relevant regulatory instrument.***

6.2.9.2 *Financial hardship policy*

The Customer Service Regulations also provide that the Customer Service Code is to specify that a regulated water and sewerage entity have and apply a financial hardship policy to customers who are suffering financial hardship.

The Customer Service Regulations again outline a series of obligatory inclusions with respect to the drafting of an entity's financial hardship policy. The Customer Service Regulations also stipulate the criteria to be met for a customer to be deemed to be suffering financial hardship. Such provisions have been mirrored in clause 6.4 of the Customer Service Code (financial hardship policy).

Upon consideration and assessment of TasWater's draft financial hardship policy, the Economic Regulator identified some instances of non-compliance with provisions of the Customer Service Regulations and the Customer Service Code with respect to what a policy of this nature must specify.

Specifically, it was evident to the Economic Regulator that TasWater's draft financial hardship policy did not adequately identify the criteria it applies in its assessment of whether or not a customer is suffering financial hardship. The policy noted that TasWater "*extends the Hardship Policy to those who are identified either by themselves, by the Corporation or an independent financial counsellor*". Furthermore, that "*the Corporation identifies customers facing financial hardship through its billing process and a customer's payment history*". This does not clarify how a customer is deemed, by TasWater, to be experiencing financial hardship. For example, is there a threshold of how many late payments are received from the customer or the number of requests for payment extension which triggers the application of the financial hardship status?

As noted in its Draft Report the Economic Regulator proposed requiring TasWater to ensure that its financial hardship policy was clear with respect to the indicators which it uses to determine financial hardship eligibility. In addition, the assessment criteria should, at a minimum, reflect the qualifying principles as outlined in clause 6.4.2 in the Code. Specifically, it should be apparent that, for the purposes of TasWater's financial hardship policy, TasWater will deem a customer as suffering from financial hardship if –

- the customer occupies, as his or her principal place of residence, a property in respect of which the person is a customer of TasWater; and
- the customer, an accredited, independent financial institution, or an institution that provides, on a not-for-profit basis, assistance to persons experiencing financial difficulty, has notified TasWater that the customer is suffering financial hardship and is consequently having difficulty, or expects in the near future to have difficulty, in paying an amount of money specified in an account that is or may be issued by TasWater in relation to the property; and

- the customer would, but for financial hardship, pay the amount of money or amount of moneys that are, or may become, due and payable by the customer to TasWater.

It is also a requirement under clause 6.4.3 of the Customer Service Code that TasWater's financial hardship policy contain policies and internal assessment processes for implementation by persons employed or engaged by TasWater to enable those persons to:

- determine a customer's eligibility of financial hardship,
- make an early identification (in this regard); and
- determine the internal responsibilities for the management, development, communication and monitoring of the policy.

With the exception of TasWater noting that it will provide its customer service staff with ongoing training about the financial hardship policy, the policy document did not contain information with respect to additional policies and internal assessment processes for implementation.

Clause 6.4.3 of the Customer Service Code also specifies that the financial hardship policy must:

- state the circumstances in which TasWater will waive or suspend fee and interest payments on outstanding amounts;
- offer information about TasWater's dispute resolution policy;
- detail the circumstances in which the policy will cease to apply to customers; and
- provide for a review mechanism of the policy and its associated procedures.

In its Draft Report, the Economic Regulator noted that these aforementioned requirements have also been omitted from TasWater's draft financial hardship policy.

The Economic Regulator's review also identified some inconsistency in referencing titles of documents throughout the draft policy, which may affect the policy's legality and application.

The Economic Regulator provided comments to TasWater directly about such minor editorial issues. Subject to all of the aforementioned matters being addressed, the Economic Regulator is otherwise satisfied that TasWater's draft financial hardship policy is consistent with the objectives of the Customer Service Regulations and the Code.

In addition, there were no issues raised as part the consultation process on the Economic Regulator's Draft Report with respect to the accuracy and compliance of TasWater's draft financial hardship policy which have resulted in any subsequent amendments to the Economic Regulator's position on these matters.

***The Economic Regulator requires TasWater to amend its draft financial hardship policy so that it is fully compliant with the relevant regulatory and legislative instruments.***

## 6.3 Service replacement

### 6.3.1 Background

Service replacement involves replacing reticulated services with other arrangements, most commonly replacing reticulated water supply with water tanks. The Economic Regulator considers that it is important that a robust framework exists for TasWater to follow when considering whether to replace an existing service.

Any reductions in serviced land due to service replacement proposals will need to be approved by the Economic Regulator prior to that service replacement taking place and, consequently, the serviced land boundary changing.

Service replacement will only be permitted where:

- there are environment or public health issues that need to be addressed; and
- the cost of addressing those concerns through upgrades to the reticulated system is considered uneconomical.

The Economic Regulator does not intend assessing a serviced land reduction proposal, arising from service replacement, from a wider socio-economic or public benefit perspective. Rather, the Economic Regulator's assessment will be based on whether TasWater has followed an appropriate process and whether the proposal has appropriate support.

### 6.3.2 Regulatory framework

The water and sewerage regulatory framework provides guidance in relation to the requirement for a regulated entity to make customer connections and sets out conditions that apply to the disconnection of customers from reticulated services.

Regulation 8 of the Customer Service Regulations provides that a regulated entity can initiate the disconnection of a reticulated service under certain circumstances, including where the customer has requested or agreed to the disconnection.

Where a service replacement proposal involves disconnecting regulated reticulated services, it is considered that Regulation 8 provides the opportunity to do so. However, the water and sewerage regulatory framework does not explicitly address the issue of service replacement.

On that basis the Economic Regulator stated in its PSP Guideline that it will only approve a service replacement proposal if it is satisfied that:

- the proposal involves the replacement of the current reticulated service with another form of service provision;

- TasWater has examined options other than service replacement, but they were technically not possible or were impractical due to the costs involved (noting that costs can be determined in a number of ways, for example, capital cost per connection);
- the service replacement proposal has been discussed with, and is supported by, all relevant industry regulators, including the EPA, Director of Public Health, the TFS and relevant planning authorities;
- TasWater has consulted with affected customers (particularly any customers identified by the regulated entity under the requirements of the Code as being special needs customers) and the proposal has broad community support; and
- the proposal is consistent with any relevant legislative or regulatory obligations or government policy.

The Economic Regulator further stated that it would not specify limits for what might constitute an ‘uneconomical cost’ or ‘broad community support’, in terms of the requirements above, as these may vary in different circumstances. Rather, the Economic Regulator considers that it is TasWater’s responsibility to justify its position as part of any service replacement proposal.

### 6.3.3 Outline of TasWater’s proposed service replacement process

TasWater’s proposed Price and Service Plan incorporated its *Small Towns Water Supply Guideline* which outlines TasWater’s proposed approach to the assessment of options for the provision of water services to residents of small towns. TasWater’s proposed strategy for the provision of water services to small towns considered:

- the Australian Drinking Water Guidelines (ADWGs);
- the Tasmanian Drinking Water Quality Guidelines (TDWQG) – which provides two mechanisms for addressing immediate public health risks, including Boil Water Alerts (temporary or permanent) and a Public Health Alert (ie a “Do Not Consume”) notice; and
- DHHS’ requirements.<sup>12</sup>

TasWater’s strategy also outlined a high level process and a broad set of criteria for determining whether to provide treated water in accordance with the TDWQG or whether to consider service replacement (ie replace an existing reticulated system with an appropriate alternative supply source). These categories are outlined in Table 6.11.

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<sup>12</sup> The Economic Regulator understands that DHHS would prefer that permanent Boil Water Alert Notices not be considered as long term solutions to address water that was not of drinking water quality.

**Table 6.11 TasWater’s proposed criteria for determining whether to provide treated water or consider service replacement**

Category	Water treatment or service replacement	Criteria
Category A1	Water treatment	Cost per connection < \$20 000
Category A2	Water treatment	<ul style="list-style-type: none"> <li>▪ Cost per connection &gt; \$20 000, but –</li> <li>▪ The town meets <b>at least one</b> of the following key assessment criteria:                             <ol style="list-style-type: none"> <li>1. There are at least approximately 100 connections, with more than 60 per cent of the premises occupied.</li> <li>2. There is a growing population base.</li> <li>3. The water supplies social services, industries or schools.</li> <li>4. The water supply is on a major tourist route.</li> </ol> </li> </ul>
Category B	Service replacement with alternative cost effective supplies such as water tanks, irrigation supplies or other arrangements.	<p>Cost per connection &gt; \$20 000 and the town <b>does not meet any</b> of the other key assessment criteria (listed under Category A2).</p> <p>Alternative options are implemented only after alternative options are discussed with communities, owners and regulators.</p>

TasWater considered that \$20 000 per connection is the threshold above which the cost of upgrading the services is considered worthy of additional investigation/assessment to justify the implementation of a drinking water supply to ADWG standard. In response to the Economic Regulator’s request for justification of this figure, TasWater advised that the \$20 000 per connection threshold had been derived by Ben Lomond Water on the following calculation basis:

- Ben Lomond Water’s Price and Service Plan for 2012-15 included revenue per ET of \$466 based on average annual residential consumption of 200 kilolitres (2012-13 dollars).
- An asset valuation carried out by GHD in respect of Ben Lomond Water’s water treatment plants established a weighted average useful life for those assets of 42 years.
- The revenue that Ben Lomond Water could therefore expect to receive per ET over the life of a water treatment plant asset (in 2012-13 dollars) would be equal to 42 x \$466 = \$19 572 or approximately \$20 000.

TasWater included a threshold of 100 connections above which service replacement would not be pursued as TasWater considered that towns with more than 100 connections are generally less likely to reduce in size to the point of TasWater being left with ‘stranded assets’ (ie infrastructure left with very few, or without any, customers to pay for its maintenance).

TasWater did not propose any process under which the property owners of a community could choose, instead of service replacement, to contribute to the costs

of upgrading their current reticulated service. Therefore, in the absence of such a proposal from TasWater, TasWater will not be able to provide this as an option to communities during the second regulatory period as the methodology for determining any such charge needs to be approved by the Economic Regulator before agreements can be entered into with property owners.

#### 6.3.4 Assessment of TasWater's proposed service replacement process

When TasWater was formed it inherited significant legacy issues from the previous owners of Tasmania's water and sewerage infrastructure, in the form of services which failed, and continue to fail, to comply with contemporary environmental and public health standards.

Water and sewerage infrastructure is costly and, in the case of some small communities, the replacement of reticulated services with alternatives such as rain water tanks may be a more economically efficient means of addressing environmental and public health risks than investing in new or upgraded reticulated service assets. However, the disconnection of a community from a reticulated essential service is not a common occurrence in Australia.

Given the consequences of replacing a reticulated service are significant, the Economic Regulator considers that TasWater's framework for considering whether to replace a service, as well as the processes for implementing alternatives to a reticulated service, needs to be robust to protect the best interests of the communities involved.

The Economic Regulator considers that TasWater's final Price and Service Plan will need to provide detailed guidance for those situations where a regulated reticulated service that does not meet contemporary environmental and/or public health standards might be changed. As part of a proposal to replace a regulated reticulated service, the new supply arrangements must be deemed to lead to an improvement in drinking water quality as compared to the water supplied by the current supply system.

However, in supporting any service replacement framework under which TasWater identifies areas where reticulated service replacement may be examined, the Economic Regulator is not seeking to explicitly identify communities that will, or should have, reticulated services replaced with an alternative service.

Rather, TasWater must engage the community to ensure the process for service replacement is transparent and present evidence of broad community support for any proposal. As part of this, it is expected that proposals presented for consultation with the community and for consideration by industry regulators will include an appropriately detailed assessment of the impacts of the proposal, including costs faced by individual households and businesses.

While it is necessary for TasWater to comply with its regulatory obligations, it is also expected that proposals for reticulated service replacement will be consistent with relevant established policies and initiatives, including regional land use planning

frameworks. It is also expected that any proposal will take account of fire-fighting requirements to TFS's satisfaction.

In maintaining the independence of the various regulators involved in the decision-making process, it is the responsibility of each regulator to determine the basis on which it might assess the extent to which a particular proposal is considered satisfactory.

The Economic Regulator considers that the service replacement process to be included in TasWater's final Price and Service Plan should outline in detail the end-to-end process to provide greater guidance and transparency to affected customers and stakeholders. In particular, the Economic Regulator considers that the process should clearly state that individual customers have an explicit right of review of TasWater's decisions in relation to offers made to them.

#### *6.3.4.1 Economic Regulator's service replacement process*

In its Draft Report, the Economic Regulator proposed requiring TasWater to follow a process set out in a series of flowcharts illustrating the service replacement process ie from a high-level flowchart providing an overview of the process to more detailed flowcharts for each stage of the process.

TasWater provided the only submission in relation to the proposed service replacement process as part of consultation on the Economic Regulator's Draft Report.

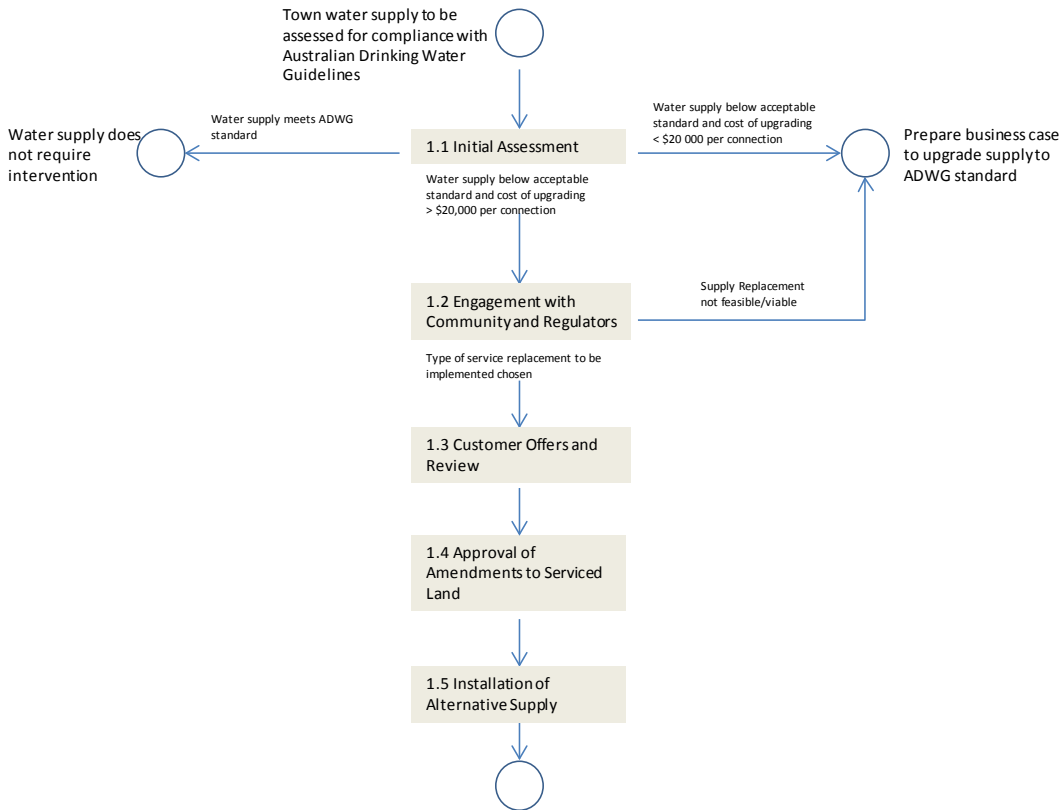
Whilst TasWater suggested some minor changes, which are discussed in the relevant sub-sections below, the Economic Regulator has decided against amending the flowcharts presented in the Draft Report. These flowcharts are re-produced below.

##### *6.3.4.1.1 Service replacement overview*

The high-level service replacement process is shown in Figure 6.1 and:

- provides the context for the service replacement process; and
- identifies at a high-level, the relationships between the separate stages of the process.

**Figure 6.1 Service replacement overview**



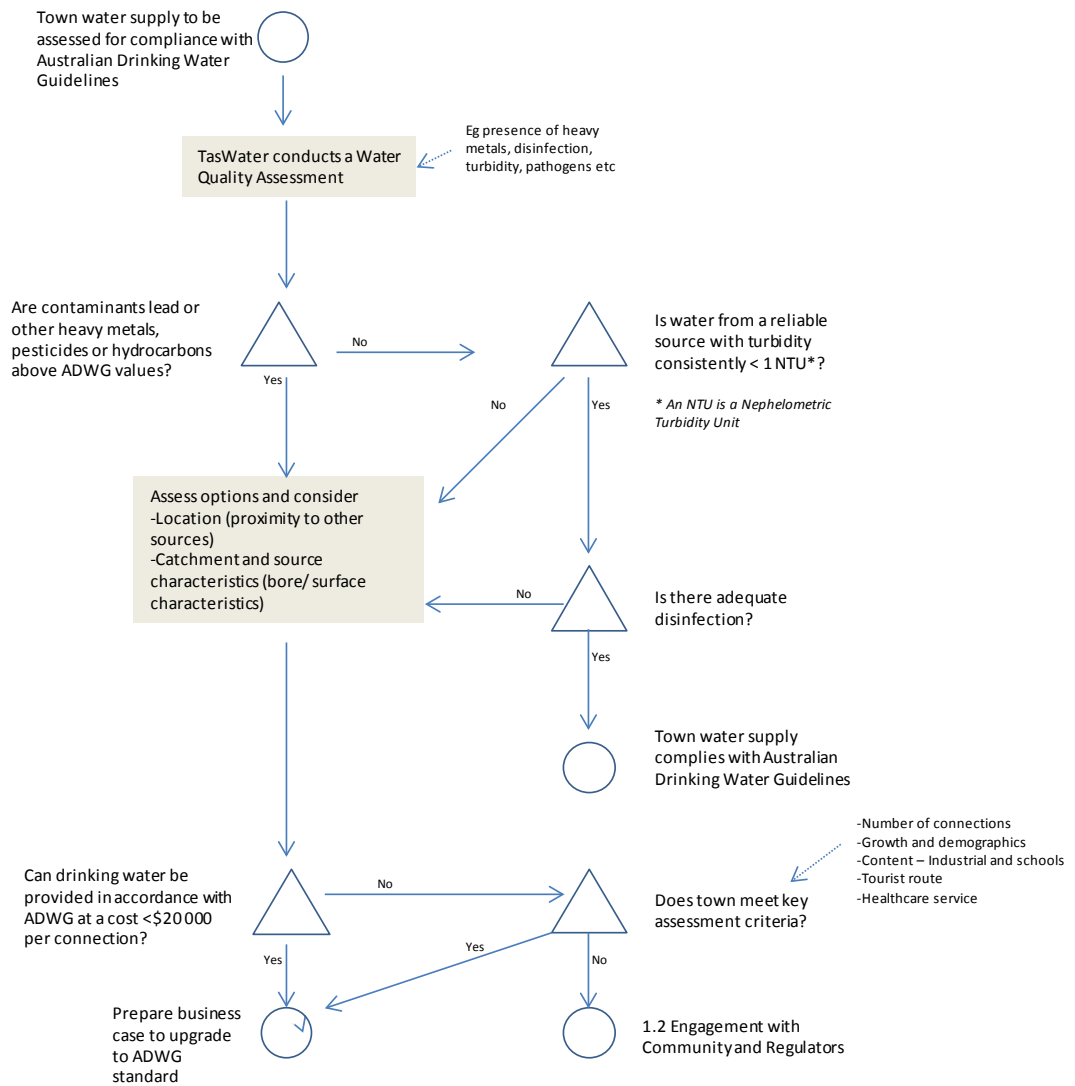
The end-to-end service process replacement process, illustrated at the high level above, is broadly similar to that proposed by TasWater in its proposed Price and Service Plan.

6.3.4.1.2 Initial assessment

Figure 6.2 illustrates the initial assessment process to be undertaken by TasWater and is consistent with the process outlined in the Flowchart at Attachment G2 of TasWater’s proposed Price and Service Plan.



**Figure 6.2 Initial assessment**



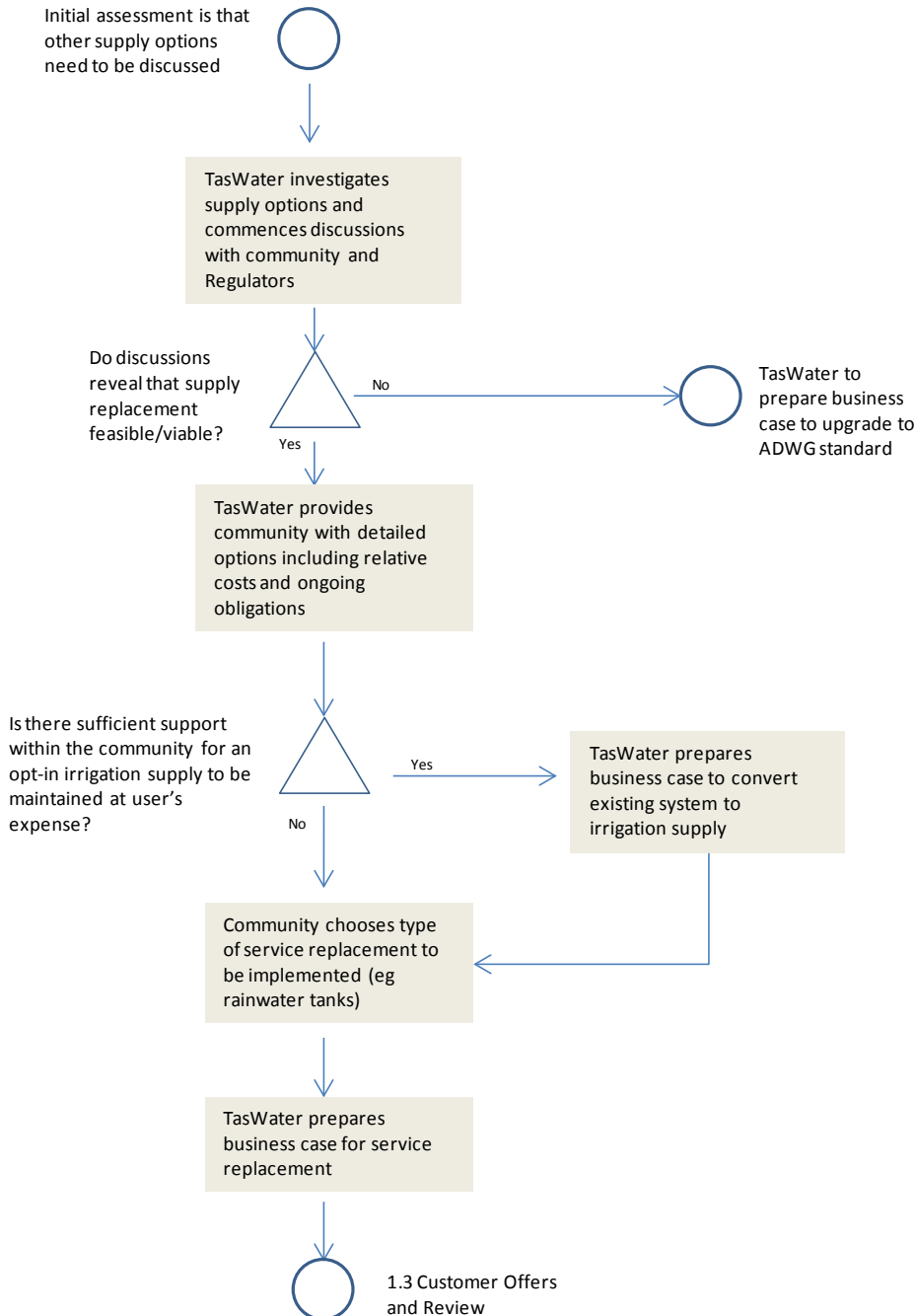
TasWater’s *Small Towns Water Supply Guideline* outlines how TasWater determines the need for improvement actions or replacement supply options for existing water supplies with Permanent Boil Water Alerts and Public Health Alerts. TasWater aims to provide treated water in accordance with its *Water Quality Policy*<sup>13</sup> for all systems noting that costs may exceed the nominal \$20 000 threshold for water supply systems that meet ‘key assessment criteria’.

<sup>13</sup> TasWater’s Water Quality Policy is Attachment G1 of its *Proposed Price and Service Plan 2015-18*.

6.3.4.1.3 Engagement with community and regulators

Figure 6.3 illustrates the process TasWater is to adopt in engaging with the affected community and regulators.

**Figure 6.3 Engagement with community and regulators**



The approach to TasWater engaging with the affected community and regulators, illustrated in Figure 6.3, is broadly similar to that proposed by TasWater in its proposed Price and Service Plan.

If the relevant industry regulators provide in-principle support for service replacement being investigated following initial discussions with TasWater, the

Economic Regulator expects that TasWater would engage early in the process with the community. Initial consultations with the community include but are not limited to:

- presentation of all the service replacement options including detailed costings;
- disclosure of any 'hidden' aspects of service replacement, such as:
  - details on the quality of the replacement supply;
  - the likely costs of re-filling (including water cartage) and maintaining water tanks;
  - the costs associated with potentially retaining the current supply as an irrigation service and responsibility for its maintenance;
- consultation on any specific issues affected by service replacement, such as:
  - any special needs customers as identified in the Customer Service Code;
  - food/accommodation premises including publicly accessible taps;
  - public toilets and hand washing basins;
  - irrigation supplies for parks and recreational facilities;
  - truck fill points and the TFS's fire-fighting needs;
  - community halls and other facilities;
- advice regarding the likely impact of service replacement on property values;
- advice regarding the responsibilities and expectations with respect to local government plumbing works and certificates upon completion of installation of rain water tanks; and
- information on maintaining an existing sewerage service.

It is expected that the community be kept up-to-date as to when decisions on the type of service replacement need to be made. This may include the attendance of regulators, particularly representatives from DHHS, at public meetings. The Economic Regulator expects that TasWater will develop clear documentation outlining any community obligations as a result of service replacement.

In its submission on the Economic Regulator's Draft Report, TasWater sought the Economic Regulator's clarification on whether it considered majority community support is necessary for service replacement to proceed and, if so, whether TasWater has flexibility in determining what support or feasibility/viability looks like.

As stated in its PSP Guideline and its Draft Report, the Economic Regulator will need to be satisfied that the level of community consultation is reasonable. The Economic Regulator does not, however, intend setting a precise threshold for determining whether or not the level of community support is adequate.

6.3.4.1.4 Customer offers and review

Figure 6.4 illustrates the customer offers and review process TasWater is to adopt in engaging with property owners.

**Figure 6.4 Customer offers and review**

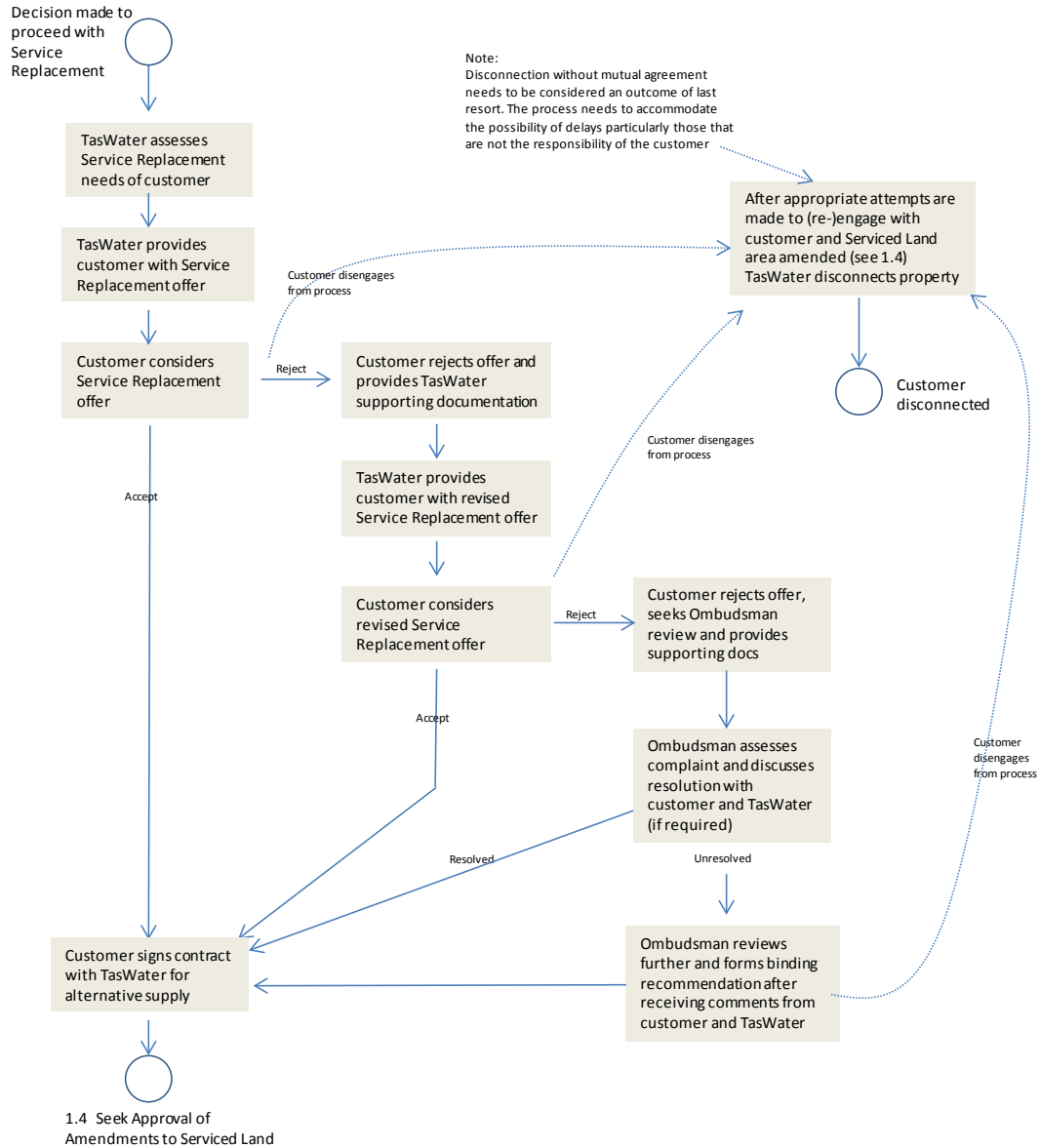


Figure 6.4 contrasts with the approach proposed by TasWater in its proposed Price and Service Plan as the approach now required by the Economic Regulator includes the customer having a right of review of TasWater’s offer of financial compensation. The Economic Regulator considers it important that if a customer feels that TasWater’s service replacement offer is inadequate and is unable to resolve the matter, it is made clear that they have the opportunity to address this through TasWater’s standard complaints handling arrangements and, if still not satisfied, can have this matter reviewed by the Ombudsman.

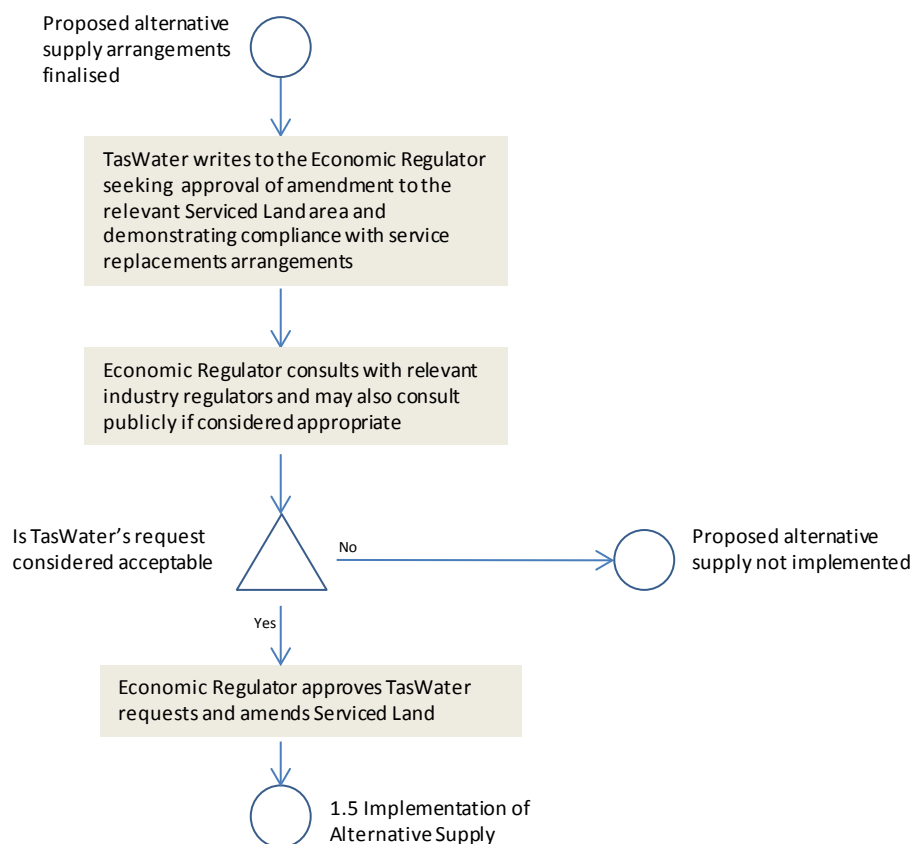
In providing a property owner with a service replacement offer it is expected that TasWater would, firstly, need to undertake a robust risk and site assessment and apply an accepted methodology in determining the appropriate design of the proposed service replacement option. For example, in the case of rain water tanks, the Economic Regulator expects that offers would be based on an accepted approach to the sizing of the tanks based on appropriate rainfall data.

Figure 6.4 provides for an explicit right of review of TasWater's decisions in relation to offers made to individual customers but also utilises the existing complaints handling process whereby complainants should generally lodge and attempt to resolve complaints with TasWater in the first instance before seeking the Ombudsman's review. Should a property owner choose to dis-engage from the process, the process envisages the Economic Regulator approving a change to the serviced land area and subsequent disconnection of the property by TasWater, without prior installation of an alternative supply for the property owner.

Each contract for an alternative supply would need to include a condition precedent which states that the contract is not binding until, and unless, the Economic Regulator has approved a request from TasWater to amend the relevant serviced land boundaries. This will ensure that there is independent oversight of the process prior to customers having any binding contractual obligations.

#### 6.3.4.1.5 Approval of amendments to serviced land

Figure 6.5 illustrates the amendments to serviced land process to be undertaken by TasWater and the Economic Regulator.

**Figure 6.5 Approval of amendments to serviced land**

While the processes in Figure 6.5 are broadly consistent with the approach outlined by TasWater in its proposed Price and Service Plan, the Economic Regulator considers that the process for seeking amendments to serviced land should only commence when it is established that all property owners have either signed contracts or have chosen to disengage from the process. This contrasts with TasWater's proposed Price and Service Plan which stated that once the majority of owners have signed contracts, TasWater would seek the Economic Regulator's approval to amend serviced land. As noted above, the Economic Regulator's process for seeking amendments will ensure that there is independent oversight of the process prior to customers having any binding contractual obligations.

Once the Economic Regulator has amended the description of serviced land, the contracts signed by property owners and TasWater would become enforceable.

In its submission on the Economic Regulator's Draft Report, TasWater recommended adding a new step to the Economic Regulator's proposed process to reflect the Economic Regulator's approval, prior to individual customers receiving offers from TasWater, for a service replacement proposal to proceed.

However, in proposing a detailed service replacement process requiring TasWater to engage with individual property owners before seeking amendments to serviced land, the Economic Regulator's process is designed to provide certainty. The process also provides for the industry regulators to play an important role in the investigation of the option of service replacement, and, if the process is followed,

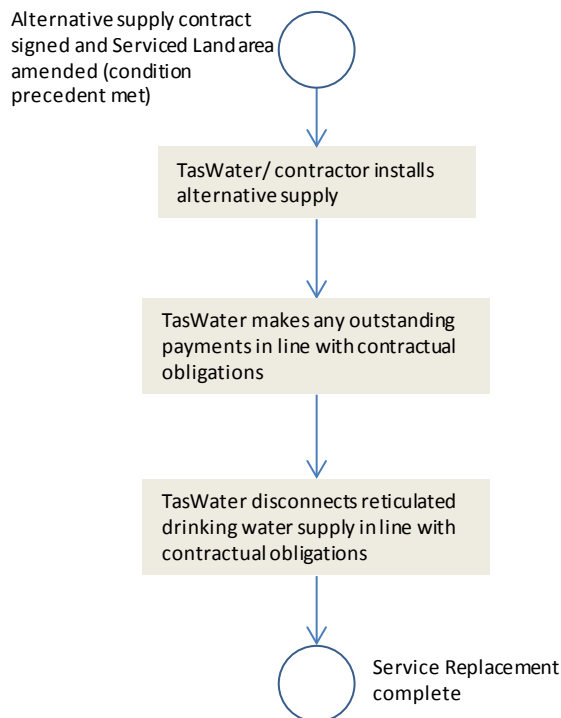
then regulatory compliance can be achieved. Any “approval” provided by industry regulators prior to individual customers receiving offers, could only be conditional on future actions occurring, which would be contrary to the objective of providing certainty.

The Economic Regulator has therefore decided against adding the requested additional step to the service replacement process.

#### 6.3.4.1.6 Installation of alternative supply

Figure 6.6 illustrates the installation of alternative supply process to be undertaken by TasWater and the Economic Regulator.

**Figure 6.6 Installation of alternative supply**



TasWater’s proposed Price and Service Plan stated that once the majority of owners have signed contracts, TasWater would seek the Economic Regulator’s approval to amend serviced land which would then trigger disconnection of the affected properties.

However as noted in its Draft Report, the Economic Regulator considered that the process leading to the disconnection of properties in a community should only occur when all affected properties have either:

- had an alternative supply installed; or
- their owners have chosen to disengage from the process as set out in Figure 6.4.

***The Economic Regulator requires TasWater to adopt the service replacement process outlined in Figures 6.1 to 6.6 inclusive in Chapter 6 of this Final Report.***